

FINANCIAL TIMES



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The welfare state
Some radical reform proposals

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THURSDAY NOVEMBER 24 1996

Sporting goods makers to adopt child labour code

Sports goods companies are set to agree on a code of practice aimed at eliminating the use of child labour by manufacturers. Executives from Nike and Reebok of the US, Adidas of Germany and other companies will meet in London today after criticism from trade unions and child welfare groups. An estimated 250m children under 14 are working in developing countries. Page 14

Tunnel still closed

The Channel tunnel is to remain closed for at least another day. Experts will continue to assess the damage caused by Monday's fire, which damaged 600 yards of the under-sea rail link. Eurotunnel's shares fell a further 2p to 86p (£1.32) following Tuesday's 3:30 fall. Page 9

US and China aim to strengthen links

US secretary of state Warren Christopher (left) held an intensive series of meetings in Beijing ahead of president Bill Clinton's meeting this weekend with his Chinese counterpart, Jiang Zemin (right). Both countries seem keen to boost relations, but Beijing objected to continued US arms sales to Taiwan and Washington criticised China's human rights record. Page 8

US trade deficit up: Sluggish world growth, rising oil prices and a fall in aircraft shipments pushed the US trade deficit to \$11.3bn in September, up 10.1 per cent from August. Page 7

Protest over Daewoo move: Thousands of employees of French state-controlled consumer electronics company Thomson Multimedia staged marches in Paris to protest against its planned sale to South Korea's Daewoo.

Tokyo Electric Power saw its interim halves halved because of falling electricity charges, rising oil prices and a weaker yen. The world's biggest quoted power company reported six-month pre-tax profits down 51 per cent to less than ¥2bn (\$58m). Page 15

Cancer alert: Cases of skin cancer could quadruple by 2100 if ozone-depleting chemicals are not restricted, according to a report in the science journal Nature. Production of chlorofluorocarbons was banned worldwide in January, but there is still a black market in the chemical.

Arms block lifted: The US approved the delivery of a long-delayed arms shipment to Bosnia's Muslim-Croat federation following the dismissal of a Bosnian minister seen to have close ties with Iran. Page 2

Blasts hit Budapest: Police suspect gang warfare is to blame for a spate of grenade attacks near restaurants and nightclubs in the Hungarian capital. No one has so far been hurt by the attacks.

UK youth system condemned: Britain's youth criminal justice system wastes public money, is inefficient and largely fails to help victims or prevent re-offending, says a report by a public watchdog body. Page 9

Italian family murdered: Six members of the same Italian family were found murdered in a southern town of the Calabria region. They were related to a paramilitary policeman who is now being sought.

Granada may demerge: UK group Granada is likely to demerge its TV and its hotel and catering interests, possibly as early as mid-1997. The company yesterday announced a 37 per cent rise in annual pre-tax profits to £480m (\$792m). Page 18; Lex, Page 14

Financial Times journalist Jimmy Burns was yesterday awarded the Santa Cruz Literary Prize by the Anglo-Spanish Society, which promotes friendship and understanding between the people of Britain and Spain. The prize was presented at the Society's annual dinner by the Spanish ambassador, Alberto Aza Arrias.

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STOCK MARKET INDICES

New York Composite	4,416.86	+18.29
NASDAQ Composite	1,285.54	+2.93
Europe and Far East		
CAO	2,223.39	+8.89
DAX	2,774.92	+10.41
FTSE 100	1,982.8	+15.3
Nikkei	21,189.96	+233.78

US LUNCHTIME RATES

Federal Funds	5.75%
3-month Treasury Bill	5.1475%
Long Bond	10.0%
Yield	6.430%

OTHER RATES

UK 3-month Treasury	6.75%
UK 10 yr Govt	100.1%
France 10 yr Govt	104.52%
Germany 10 yr Govt	102.87%
Japan 10 yr Govt	102.827%

NORTH SEA OIL (Argus)

Brent Blend	\$23.25
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STERLING

DM	2.612
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China plans military display at HK handover

By Peter Montagnon in London

China has told British officials it intends to march 6,000 troops across the border into Hong Kong as soon as it resumes control of the territory at midnight on June 30 next year.

The soldiers will be accompanied by air and naval forces in a display designed to emphasise China is now once again in sovereign control after a gap of 150 years. British officials fear the

troop movements, which will be widely seen on television around the world, will create nervousness about the style of government China plans for Hong Kong.

Chinese government representatives in Hong Kong were unable to comment. For a communist country such as China, such a patriotic display would be a natural and expected part of ceremonies surrounding an event of such momentous sovereign importance.

Britain will have a formal farewell ceremony for the few

remaining British troops at sundown on the evening of June 30. But there is concern in Hong Kong that China's display will dampen popular enthusiasm for the handover ceremonies.

These have been billed as a spectacular festive occasion amid hopes that any military activity will be low key.

Public unease about the presence of the People's Liberation Army in the territory has already emerged in negotiations with Britain over the dispatch by China of an

advance guard to prepare the ground for the PLA's arrival. Britain has been seeking to ensure any advance guard is small and unarmed, but it can have no say in how China behaves after midnight on the handover day.

There will be a joint handover ceremony with China on June 30 before the UK contingent, led by Prince Charles, Mr Malcolm Rifkind, the foreign secretary, and Mr Chris Patten, the colony's governor, departs at midnight aboard the royal yacht Britannia.

Shortly afterwards, China will hold a swearing-in ceremony for its new chief executive, expected to be Mr Tung Chee-hwa, the shipping magnate.

Other senior government officials will be quickly sworn in, but China has so far given no indication whether the ceremony could extend to the provisional Legislative Council it plans to set up next month.

Britain has objected to China's plan to replace the existing Legislative Council and fears the new body will consti-

tute a parallel government. Pressure for a strong protest emerged in last week's UK parliamentary debate on Hong Kong.

Mr John Major's government faces an awkward choice over how far to risk jeopardising the handover arrangements by protesting at this late stage.

Mr Patten has already said he will refuse to work with the new body, but he is committed to collaborate with the chief executive-designate, who will clearly also be working with the provisional council.

World Trade Organisation to rule on Helms-Burton law

EU forces dispute panel on Cuba trade

By Frances Williams in Geneva and Nancy Dunne in Washington

The World Trade Organisation yesterday accepted a European Union demand for a dispute panel to examine whether US anti-Cuba legislation violates international trade rules.

But US officials warned the decision, which could spark hostility to the WTO in Washington, would pose "serious risks" for the world trade body.

Since US President Bill Clinton's re-election this month, both sides have voiced hopes of a diplomatic settlement to the row over the Helms-Burton law, which penalises foreign companies trading with Cuba.

But the EU said yesterday it had observed no change in the US position since Washington blocked the first request for a panel last month. Under WTO rules a panel is automatically set up second-time round.

Adjudicating on the issue risks political controversy for the fledgling WTO.

Mr Booth Gardner, US ambassador to the WTO, reiterated yesterday that the US legislation was a foreign policy measure "designed to promote a swift transition to democracy in Cuba". He noted that some of the measures the EU was

complaining about had been in force for years. They had been justified by the US under the General Agreement on Tariffs and Trade, the WTO's predecessor, as "measures taken in pursuit of essential US security interests".

Washington has not said explicitly that it will invoke the WTO's national security exemption in defence of the Helms-Burton Act but Mr Stuart Elzenstat, commerce undersecretary, has said Washington will use all the tools at its command.

The exemption lets a WTO member take "any action it considers necessary for the protection of its essential security interests", but only in three circumstances. These relate to fissionable materials, traffic in armaments and/or action "taken in time of war or other emergency in international relations".

Brussels says the exemption, never tested in law, does not apply in Cuba's case and cannot be extended to restrict trade by third countries.

The three trade experts on the WTO panel could find they have to decide whether the US is facing an "emergency in international relations" and

Continued on Page 14
Unlikely ally, Page 7



Power protest: Belarusians protest yesterday in Minsk against President Alexander Lukashenko's increasingly authoritarian rule as Russia tried to mediate in his dispute with the country's parliament. Report, Page 2; Editorial Comment, Page 13

Brussels blocks \$1.1bn Finnish merger

By Greg McIvor in Stockholm and Emma Tucker in Brussels

The European Commission yesterday blocked a proposed FMSbn (\$1.1bn) merger between Finland's two leading grocery chains.

In a rare move aimed at preventing a domestic monopoly which could stifle competition from rival European Union suppliers, the Commission rejected the acquisition by Kesko, Finland's largest retail and wholesale grocery group, of Tuko, its nearest competitor, in May. It is only the sixth merger blocked by the Commission since 1990.

The tie-up would have created a group with a 60 per cent share of retail and wholesale grocery markets in Finland. The EU said it was concerned Kesko's dominance of the retail and wholesale grocery business would harm

smaller operators and act as a barrier to entry by retailers from other member states.

"The combined retail market share of Kesko and Tuko is at least 55 per cent whether assessed at local, regional or national level," the Commission said.

Kesko's dominant position was further enhanced by customer loyalty schemes, private label products, distribution systems and combined procurement power, it added.

The ruling called for "appro-

priate measures to restore effective competition". Kesko interpreted this to mean it would be forced to sell the bulk of Tuko's businesses, notably its wholesale and retail operations corresponding to around 70 per cent of its sales. It will seek to retain Tuko's Antilla department store chain and a hardware business.

The Finnish Office of Free Competition is not empowered under Finnish law to obstruct domestic mergers, but it

referred the case to Brussels out of concern it would create a monopolistic supply structure in Finland.

Mr Matti Purasjoki, OFC director-general, said he hoped other Finnish companies contemplating mergers would take European competition laws into account.

But Mr Matti Honkala, Kesko chief financial officer,

Continued on Page 14
Short sight lays low Finnish giant, Page 2



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Short sight lays low Finnish giant

Hugh Carnegy and Greg McIvor on how a \$1bn merger fell foul of EU competition laws

The European Commission's decision to block a \$1bn merger in Finland's retail and wholesale sector left many observers shaking their heads over how one of the country's biggest corporations could have so miscalculated such a vital aspect of the takeover.

Kesko was already one of Finland's top five companies by turnover, running everything from high street supermarkets to wholesale food and consumer goods operations, before it took over its rival Tuko in May. Together they have sales approaching FM40bn (\$6bn), including 60 per cent of the retail and wholesale food markets. But Kesko management, in a

fatal misjudgment, saw only "a very little risk" of falling foul of European competition laws, according to Mr Matti Honkala, chief financial officer. "We saw that this was a very domestic case because we operate in Finland and from our point of view the merger does not have any international meaning," he said.

Market opinion was less than charitable. "It is incredible that the management of a company like that could make such a catalogue of errors," commented a London-based analyst.

Kesko's confidence was such that there was no escape clause covering the possibility of an adverse

ruling by Brussels in the original purchase of a 56 per cent stake in Tuko from Merita Bank, Okobank and the insurance group Pohjola. Nor did the company consult the Finnish Office of Free Competition before the merger. It was the OFC which referred the case to the Commission.

Mr Matti Purasjoki, OFC director general, said he had declared before the Kesko-Tuko deal that a merger between the two was the kind of transaction he would be likely to act upon. "My warning was in the public domain, but we had no contact from Kesko," he said. Even after the OFC referred the matter to Brussels, Kesko continued Tuko shares.

Traditionally tolerant attitudes in Finland towards mergers, monopolies and cartels may have affected Kesko's judgment. The country still has no regulations covering mergers; companies do not have to notify the national authorities of a deal and there is no domestic mechanism for blocking one on competition grounds.

There has been almost no opposition inside Finland to the Kesko-Tuko tie-up and recent banking and pulp and paper mergers must have encouraged Kesko to think there was no problem. But the OFC and the Commission judged that Kesko's hold on the retail and

wholesale markets meant it controlled access to the Finnish market by foreign competitors.

"The Kesko case shows how poorly people here in the far north understand what Europe regards as genuine competition. Competition is not generated by deals done during elk hunts or in private rooms," wrote a columnist in Finland's leading newspaper.

Kesko was yesterday in the uncomfortable position of having to divest the bulk of its acquisition — possibly for far less than it paid. However, the company put a brave face on its predicament, saying that it was "confident of recovering its investment in full".

EUROPEAN NEWS DIGEST

Bosnia arms block lifted

The US yesterday gave the go-ahead for the delivery of a long-delayed shipment of weapons to Bosnia's Muslim-Croat federation following the dismissal of a Bosnian minister seen to have close ties with Iran.

Mr James Fardew, the envoy responsible for the \$400m US-sponsored "train and equip" programme aimed at merging the Muslim and Croat armies into a joint force equal in strength to their Bosnian Serb counterparts, said he had recommended to Washington that the cargo ship *American Condor* return to Croatia's Adriatic port of Ploce to unload. Since last month Washington had blocked the \$88m shipment (including M-60 tanks and M-111 armoured personnel carriers) demanding the resignation of Mr Hassan Cengic, the hardline Muslim deputy defence minister.

"Now that the minister and his deputy have left, the train and equip programme can move forward. The next major step will be an agreement of the force structure," Mr Fardew said yesterday.

A US embassy official in Sarajevo said that the American *Condor* would begin unloading today after the resignations of Mr Cengic, a Muslim cleric who Washington claims maintains close links with Tehran.

Laura Silber, Zagreb

Brussels queries copier aid

The European Commission is to examine aid granted to Océ Nederland, the biggest subsidiary of the Océ-van der Grinten copier group, for research and development into a new digital high-volume copier.

An advance of \$201.2m (\$15m) was paid in 1994, with repayment to take place once the product was launched commercially. Brussels fears some of the conditions it laid down when permission for the aid was first granted have not been met. Further aid by the Dutch government in 1995 for work on the same project is also under scrutiny.

Brussels has also opened an inquiry into a request by the Spanish authorities to allow Astilleros Zamacona, a privately owned shipyard in the Basque region, to receive state aid for five tugs.

In a further effort to clamp down on state aid, the Commission has outlined conditions to be met by public authorities when selling land. This follows a series of land sale agreements in which it detected the illegal use of state aid.

Bruna Tucker, Brussels

Hopes ride on 1996 Nouveau

Producers of this year's Bouteilages Nouveau, released on to the French and world market this morning, are hoping that sales will return to their normal level after last year's boycott by foreign consumers over French nuclear tests. That protest produced a drop in sales to 47m bottles from the customary 65m.

The UIVB association believe stable prices and an unusually "rich, intense, and aromatic" vintage will bring a recovery in markets hit by the boycott, especially Japan, where President Jacques Chirac happens to be on an official visit. Sales there dropped 30 per cent last year.

The association said that it was extending marketing efforts in eastern Europe, but in volume terms the big increase in recent years had come in south-east Asia. Thailand, for instance, has become the 15th biggest foreign customer.

David Buchan, Paris

Biotech support from Bonn

The Bonn government yesterday awarded a total of DM150m (\$100m) of special financial support to three regions to encourage the development of hiotechnology industries with the aim of helping Germany become Europe's leading hiotechnology centre by the year 2000.

Mr Jürgen Rüttgers, education and science minister, said he expected federal support to the three "model regions" would act as a catalyst, attracting an estimated DM800m of risk capital and extra funding from state governments. Bavaria has already allocated DM50m for hiotechnology; North Rhine-Westphalia is setting up a DM70m biotech fund.

The Bonn cash will be supplied over a five-year period to fund biotech projects around Munich, in a region of the Rhineland around Aachen, Cologne, Düsseldorf and Wuppertal, and in the "Rhine-Neckar triangle" around Heidelberg, Ludwigshafen and Mannheim.

Germany has been slow to embrace hiotechnology and it remains controversial among an environmentally-conscious public. Mr Rüttgers said yesterday there was "a trend in favour of hiotechnology which many would have thought impossible five years ago".

Peter Norman, Bonn

Irish doubts on Emu grow

Ireland's business community is growing doubtful that European monetary union will take place as planned in 1999, according to a survey published yesterday. While business is overwhelmingly in favour of joining, only 35 per cent believe it will take place on time.

The survey, by the Irish Business and Employers Confederation, found that 91 per cent favoured joining Emu, and 75 per cent believed Ireland should join from the start.

But the report also underlines how ill-prepared the business community is. Only 4 per cent of respondents had worked out a strategy or assessed the financial consequences of joining a single currency. Fewer than 7 per cent had appointed a director to handle the transition.

Ireland is broadly on track to meet the Maastricht criteria for monetary union. Inflation is estimated at 1.75 per cent for 1996, and the general government deficit at 2.4 per cent of GDP for 1996 is running well within with the 3 per cent target.

John Murray Brown, Dublin

ECONOMIC WATCH

German M3 growth high

German money supply growth remained high in October, partly influenced by Deutsche Telekom's new issue, which led to funds being moved to short-term deposits ready to pay for the shares. The Bundesbank said M3, the broad monetary aggregate, showed an unchanged 8.4 per cent growth rate, annualised and seasonally adjusted, over the fourth quarter of 1995.

Some estimates had put the likely figure even higher as a result of the Telekom deal. However, its effect will be reversed this month, when economists expect the rate to fall below 8 per cent. Thus M3 could end the year just within or close to the target 4.7 per cent. Also affecting the October trend was a rise in lending to the public sector and weak monetary capital formation (movement of funds to longer-term assets).

Meanwhile, the finance ministry announced that the overall deficit of Germany's federal, state and local authorities would be DM99.5bn (\$66bn) next year compared with nearly DM120bn in 1996.

Andrew Fisher, Frankfurt and Peter Norman, Bonn

- The Ifo economic research institute's business climate index for west Germany rose more than expected last month, indicating economic recovery has continued after the third quarter slowdown. The index rose from 95.7 in September to 97.4 in east Germany, however, it eased from 103.9 to 102.4.
- Swedish retail sales rose 2.1 per cent in September from a year earlier, the central statistical bureau reported.
- Denmark's independent economic advisory council expects the growth rate of gross domestic product to rise to 2.9 per cent this year from 2.3 per cent in their previous half-yearly forecast.

Anti-Brittan chorus grows louder

The Santer team is finding life with the UK's formidable commissioner increasingly difficult, writes Lionel Barber in Brussels

Fresh from his latest foray to China and Hong Kong, Sir Leon Brittan returned to Brussels yesterday and the prospect of further splendid isolation. Too big for his boots. Not a team player. Impossible to deal with. The charges against the senior British commissioner and the man responsible for European Union trade policy have a familiar ring.

What is new is that the criticism seems louder and more persistent than at any time since he arrived in Brussels in 1989. Even colleagues who are grudging admirers have begun to keep their distance from the man known as the "intellectual catherine wheel".

Last week, Mr Karel Van Miert, the Belgian commissioner who handles competition policy, was furious to learn that Sir Leon was negotiating slightly more generous terms for the threeable agreed with the Madrid government for liberalisation of Spanish telecoms.

Mr Hans van den Broek, the Dutchman responsible for enlargement, is as sensitive as ever about Sir Leon's incursions into his territory. Mr Christos Papoutsis, the Greek commissioner, is still sore about the battering he received over his proposals for electricity liberalisation, which Sir Leon dismissed as too timid.

Sir Leon has also ruffled feathers in Bonn and Paris. Chancellor Helmut Kohl's office was displeased to hear him poking the German leader's suggestion that Poland could join the EU by the year 2000. The Ellysée was livid to hear about Sir Leon's implicit criticism of President Jacques Chirac's diplomatic shuttle in the Middle East.

Some of these charges are tittle-tattle; others look unfair. Sir Leon likes to lead from the front, if occasionally with his chin. On Spanish telecoms, he wanted to secure a deal in order to present newly-elected President Bill Clinton with a new package which would encourage the US to kick-start post-Uruguay Round trade negotiations. On energy liberalisation, many feel he was right to speak out for a bolder policy.

Sir Leon has always been a workaholic-cum-bulldozer with few hesitations about trampling over others, his agenda an uneasy balance between promoting the EU's interests and his own.

The balance has become more difficult to sustain after seven years in Brussels in which Sir Leon has moved effortlessly from competition

to trade policy. He travels the world from Washington to Beijing, makes EU trade policy on the hoof, and considers himself to be the master of most of his colleagues' dossiers.

"Sir Leon has fallen into the trap which faces all foreign ministers," says one Commission official. "He thinks he has no need of a domestic political base." Another official says Sir Leon's attitude is: "I don't need colleagues, I deal with heads of government".

Yet Sir Leon's difficulties go deeper than matters of personal style. They go to the heart of the current Commission, under its president, Mr Jacques Santer, which is collegial to the point of being anaemic. Officials close to Mr Saoter worry that Sir Leon's power-

ful brain and personality will make him an uncrowned president; officials close to Sir Leon talk about a "soft centre" in the Commission which leaves it vulnerable to pressure from the big powers, particularly Germany.

Last month, helped by his British colleague Mr Neil Kinnock and several other commissioners, Sir Leon demolished proposals put forward by Mr Santer and Mr Yves-Thibault de Silguy which met German demands for a stability pact for budgetary discipline among countries taking part in the planned single currency zone. Mr Santer and Mr de Silguy warned that the Bundesbank would react negatively, but a British/Kinnock-led majority said the draconian sanctions

against fiscal delinquents made no economic sense. They carried the day.

The final charge against Sir Leon is that he has become a hostage to his own government in Britain. During the beef war and, notably, ahead of last week's European Court rejection of the UK challenge to the 48-hour working week, Sir Leon urged Mr Santer to avoid inflammatory language which could be exploited by Tory Euro-sceptics.

The president's inclination was to go along, but his entourage construed the approach as special British pleading. Subsequent negative UK press coverage of the court verdict confirmed their view, prompting Mr Santer to attack "Dickensian sweatshops" without actually naming Britain.

Like all British officials in Brussels, Sir Leon is paying the price for the Conservative party's lurch toward Euro-scepticism. This is a shift which he has sought to counter in speeches, despite personal attacks in the British press bordering on the anti-Semitic and a relationship with Mr John Major, the prime minister, which insiders say is no better than cool.

What is to be done? One option is to up the ante and take an even more aggressive stand on European issues, even if it means alienating turf-conscious colleagues in Brussels and old friends in the Tory party. The other is to stay mum and wait for a Labour government in London.

Silence has never been one of Sir Leon's strengths and his loyalty to the Conservatives remains strong. But as one colleague admits: "Leon does talk more often to Tony Blair than John Major."

France plugs old tax loopholes

By David Buchan in Paris

Sweeping aside the country's ancient fiscal regime, the French parliament has put to the guillotine historic tax breaks for 72 professions and groups of workers.

The government will only save some FF2.6bn (\$320m) a year by phasing out the loopholes over five years. But the change is designed to symbolise its desire to modernise the tax system, as part of the drive to reduce the budget deficit sufficiently to qualify next year for European monetary union.

Last night the National Assembly approved a budget deficit of FF224.4bn for 1997, FF1.2bn more than the government requested in September.

Only the most vociferous of the country's "corporations", its 28,000 journalists, have managed to salvage something from the wreckage of ancient privileges.

In removing a tax break for journalists that dates from the 1930s, Mr Alain Lamestou, the budget minister, responded to widespread pressure from backbench MPs as well as from the fourth estate, by promising to create a "modernisation fund" which the government said was designed to help needy journalists.

The 700,000 people who are to lose their tax breaks will still be able to deduct whatever they can convince the finance ministry are real professional expenses.

The list of tax breaks that are to disappear reads like an early industrial history of France, reflecting an era when employees often had to provide their own working materials or equipment.

Not only will airline cabin crew, test pilots, insurance inspectors, musicians, chauffeurs and fashion models join journalists in losing their guaranteed deductions. So also will "home weavers using equipment powered by electricity at their own expense in the departments of Aisne, Nord and the Somme".

Many disappearing tax niches reflected the cottage-industry origins of silk around Lyons, weaving in the Cévennes hills in the south, employ-making in the French Ardennes, and were designed to protect local activity long after the bulk of these industries had moved elsewhere.

The relatively poor area of the Jura mountains has required, perhaps, the greatest discrimination from tax inspectors.

There, in the little town of Oyonnax, they have had to ensure the 20 per cent tax only goes to "masters of combs, other than by sandpapering, cutting or milling".

Banks see fast growth in services to wealthy

By George Graham, Banking Correspondent

European private bankers expect the market for financial services to the wealthy to keep growing faster than the rest of the industry, but more aggressive competition is squeezing fees and is likely to force some weaker banks out of the business.

An annual survey of European private banking by Price Waterhouse, management consultants and accountancy firm, found 70 per cent of chief executives of private banks in Europe expected revenues to grow by more than 11 per cent a year in the next five years.

But the 116 bankers questioned by Price Waterhouse said they no longer expected the bulk of that growth to come from existing clients.

Instead, they believe they will have to win customers from their competitors and from the ranks of the newly wealthy - rich entrepreneurs, especially in the Far East and India.

These new clients are expected to be more active investors and more aggressive customers, who will haggle over fees, expect more sophisticated services and split their business between several banks.

"Clients will be much less loyal," said Mr Ian Woodhouse, associate vice president in Price Waterhouse's financial services consultancy.

The private banking business has been going through considerable upheaval. New competitors have entered a business once dominated by traditional houses such as the Swiss partnership banks. While many smaller private banks are now merging with or acquiring other businesses, the very largest

houses have also begun to focus more resources on their private banking businesses.

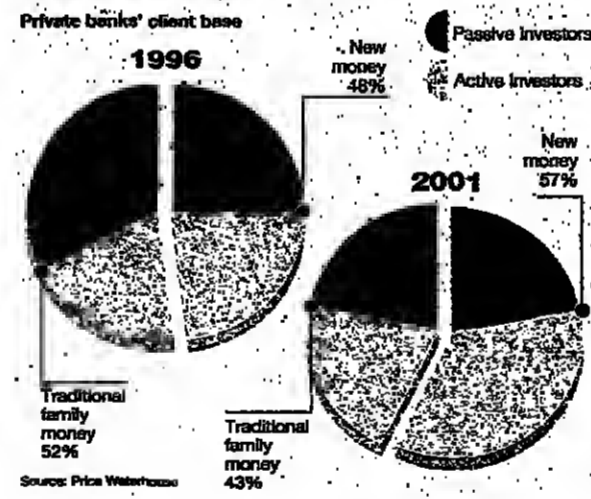
Swiss Bank Corporation and Credit Suisse, two of the largest houses, have both separated private banking from the rest of their retail banking businesses, and this has increased the competitive pressures in the market.

The Price Waterhouse survey shows a much wider range of efficiency in private banking than usual in other financial services sectors. A few banks reported their costs amounted to less than 40 per cent of their income, but these figures mostly represented national expenses of organisations which belonged to a larger group.

An efficient trust business may have a cost-income ratio close to 40 per cent, the study says, while the better full range private banks may have ratios in the 50-60 per cent range.

But 17 per cent of the sec-

The new money in Europe



tor reported cost-income ratios in excess of 80 per cent. Swiss and German banks reported especially high expense ratios, partly because of the high cost of operations in these countries but also because of heavy investments in computer systems.

"Some of the banks in the 80 per cent plus range are going to find it increasingly difficult to survive," Mr Woodhouse warned.

Private banks continue to pride themselves on their ability to deliver personal service, and most of those questioned expect this still to be one of the most important client demands five years from now. Investment performance, which today ranks only 11th in private bankers' list of reasons why clients choose them, is expected to leap in importance to third place in five years' time.

Belarus leader snubs Russian offer

By Matthew Kaminski in Kiev and John Thornhill in Moscow

Mr Alexander Lukashenko, president of Belarus, yesterday rebuffed Russian efforts to mediate in his intensifying dispute with his country's parliament.

After speaking at length to President Boris Yeltsin, still recovering in hospital after a heart operation, he turned down an invitation for talks involving Russian leaders and Mr Seymon Sharstetsky, speaker of the Belarus parliament and his main adversary.

Mr Victor Chernomyrdin, the Russian prime minister,

was ready to attend the talks in Smolensk, a Russian city on the Belarus border. However, Mr Lukashenko's aides said the president was "very busy" and could not come, according to Russian parliamentarians who did attend.

Mr Lukashenko's increasingly authoritarian rule has embarrassed the Kremlin, which considers Belarus a strategically important ally in central Europe.

The deepening crisis yesterday prompted a joint call by the presidents of Lithuania, Poland and Ukraine for "a constitutional resolution and respect for human rights" in their unstable neighbour. Some 18 Soviet-era nuclear missiles are left in Belarus.

Mr Lukashenko, dashing expectations of compromise, insisted yesterday that a controversial referendum on enhancing his powers would go ahead on Sunday, telling the interfax news agency: "Its cancellation is out of the question."

The country's highest court is considering a petition to impeach the president from 76 MPs who contend the referendum is illegal. The court could rule before the weekend.

A few hundred demonstrators kept a vigil in front of the parliament last night, watched closely by riot

police, according to deputies inside the building.

The president's determined stand comes as the Kremlin, which until this week steadfastly backed him, has called for compromise and openly expressed its displeasure at the standoff.

Mr Lukashenko risks angering his powerful Russian backers by snubbing Kremlin leaders. Some liberal commentators in Moscow yesterday warned that he had become increasingly isolated. The president indicated yesterday he might meet Mr Chernomyrdin later this week.

Mr Sharstetsky last night

held talks with his counterparts from the Russian Duma, which has called for a quick resolution and backed away from its previous endorsement of Mr Lukashenko.

Belarusian opposition leaders welcomed the Russian involvement. "The good will of Russia is the only way out of this conflict," Mr Stanislau Bobdankevich, leader of the main opposition Civic Union party, said by telephone. "There are no other influential forces."

Mr Bobdankevich said the president had called for talks with parliamentarians for tomorrow. Editorial Comment, Page 13

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Handwritten signature or stamp at the bottom of the page: "محمد أبو زيد"

Armed tax police raid Saatchi in Moscow

By Christia Freedland in Moscow

The Moscow office of Saatchi & Saatchi, the UK-based advertising agency, has been raided by armed tax police in a crackdown against foreign companies.

They accuse Bates-Saatchi & Saatchi of owing Rb33bn (\$6m) in taxes and fines.

About 20 armed police took part in the raid on October 29, seizing documents and making video recordings. The police said the tax debt was accrued by Zoom Media, a Frankfurt-based company which Russian authorities allege was operating on behalf of Saatchi.

Cordiant, the marketing services group which owns Saatchi, would not comment on its relationship with Zoom.

Westerners in Moscow said some of Saatchi's foreign staff were forced to leave Russia abruptly and had not returned. The head of the Moscow office was in London yesterday.

Mr Alex Sandberg of Cordiant said the agency faced difficulties in Russia, but the departure of some employees was due to regular travel plans.

The company would con-

tinue to serve its accounts. Western business leaders and analysts were concerned the raid was part of growing pressure on foreign companies from the tax authorities leading the Kremlin's aggressive campaign to boost revenue collection.

The International Monetary Fund has delayed a loan payment to Russia because of weak revenue collection. Observers fear that western companies could bear the brunt of the crackdown.

"Western companies are better funded, they are more able to make payments and probably they are more susceptible to pressure," said Mr Robin Porter, project director at the International Tax and Investment Centre, a think tank.

Mr Alexander Borisov of the Moscow tax police said an investigation into Saatchi between June and August had revealed "the hiding of revenues from taxation in unusually high amounts".

Saatchi staff were reluctant to discuss the issue over Moscow telephone lines and appeared concerned about prejudicial talks with the tax authorities. "We are co-operating fully with the authorities and we hope to reach a resolution soon," Mr Sandberg said.

Mad Max injects new life into east German mining hamlet

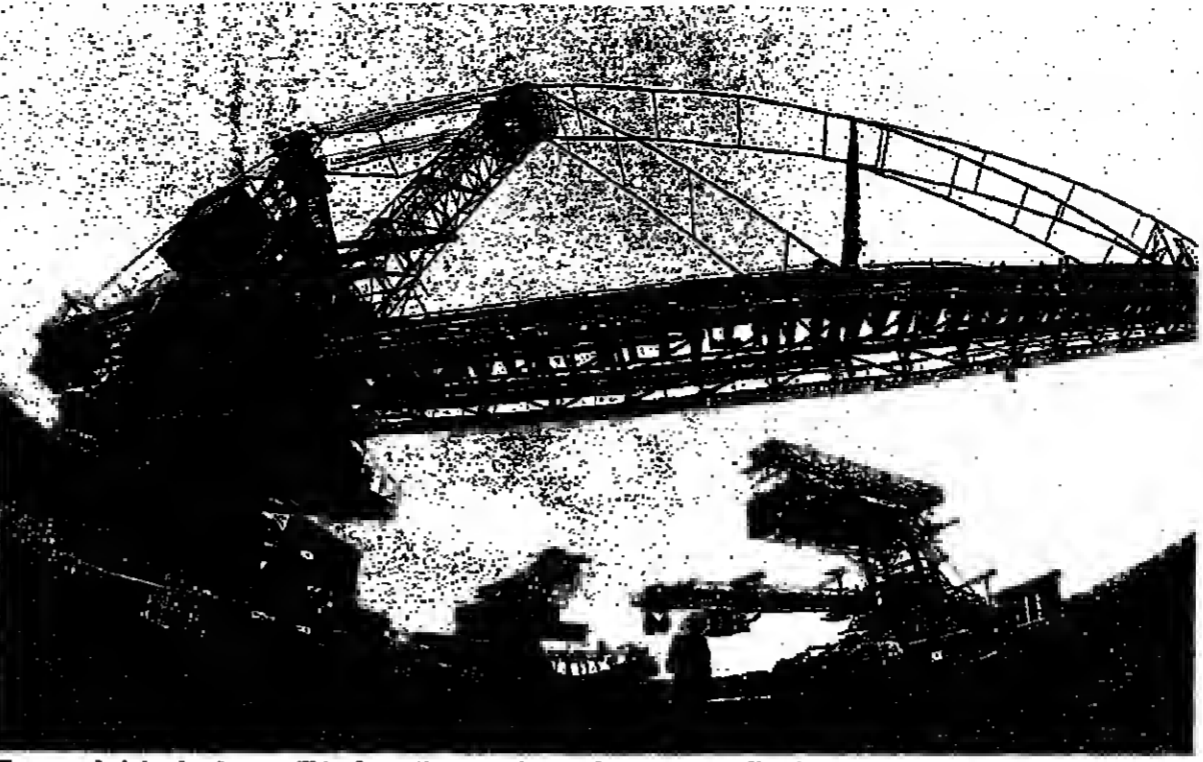
The road to Grammin leads straight into a light brown lunar landscape of slag-heaps and ploughed soil. Once it was a village of 500 people, but they disappeared years ago when their homes were swallowed up by the Golpa-Nord brown coal mine.

Grammin's fate is not untypical in eastern Germany, where brown coal, mostly from open-cast mines such as that at Golpa-Nord, provided most of the energy for the old Communist state.

But, unlike those other hamlets and villages which were scrubbed off the map by monstrous excavators, Grammin is on the verge of being reborn, in spirit at least. It is part of an unusual project to address the problems of industrial decline and environmental damage in one of east Germany's most depressed regions, Saxony-Anhalt.

The Ferropolis project involves turning the Golpa-Nord mine, exhausted six years ago, into a mixture of a theme park and exhibition centre. It will be one of the satellites of the Hanover Expo 2000 industrial fair.

The project is centred on a thin tongue of land reaching



Heavy coalmining hardware will be dramatic centrepiece of the new Ferropolis leisure centre in Saxony-Anhalt

into the Golpa-Nord mine. There, four huge mining machines - nicknamed Mad Max, Medusa, Gemini and Mosquito - are being arranged in a square. A fifth machine - Big Wheel - will be to the side. The square thus enclosed will be capable of holding 10,000 people.

"This assembly of heavy industrial hardware will form the centrepiece of an exhibition devoted to the history of what was once one of the powerhouses of German industry. The surrounding landscape will be flooded, leaving the exhibition site as an island."

Mr Thomas Worms, head of the local Expo 2000 office, believes this startling arrangement will become a popular tourist and leisure attraction. As well as a permanent exhibition devoted to brown coal mining, Ferropolis will be a venue for art

shows and concerts. He is also convinced that the sheer spectacle of the project will be a magnet for tourists. Ferropolis has attracted thousands of visitors, even though it will not open officially until next year.

The inspiration behind Ferropolis came from the Bauhaus design school in Dessau, about 15 minutes' drive from Golpa-Nord. Two students from the Bauhaus, which as the onetime workplace of Walter Gropius and Mies van der Rohe can claim to be one of the main sources of modern architecture and design, came up with the idea five years ago.

At that time the Golpa-Nord mine was scheduled to be filled in and simply landscaped. The machines were destined for the scrapyard.

The idea of taking a different approach, one which

showed to preserve a bit of the history of the mine and the machines which worked it, was not immediately popular. "People here tend to think of Bauhaus as a bunch of weirdos who always come up with strange ideas," says Mr Worms.

But as the job of closing the mine and breaking up the machines started to get under way there was a change of heart. "Everyone began to see that we weren't dismantling just the mine, but also a bit of east German history and a bit of our own personal history as well," says Mr Worms, who studied mining technology and later worked at a mine nearby.

Bauhaus managed to win over the mine's owners, LMBV, and gain the support of the Saxony-Anhalt government and the Expo 2000 organisers. The DMS.1m (\$3.4m) which LMBV had

originally earmarked for the scrapping of the machines was transferred to the new project. A further DMS.9m is being provided by Saxony-Anhalt and private backers.

For the state, Ferropolis has a symbolic resonance. The worked-out mine seems an expression of exhausted potential, even the manufacturer of its machines, a big local engineering concern called SKEP, is now fighting for its survival. But the region also prides itself on being the birthplace of PVC, colour film and the ideas of Bauhaus, as well as the centre of Martin Luther's Reformation.

Mr Worms argues that Ferropolis too is "a positive symbol of Saxony-Anhalt's ability to grasp the challenges of reform and innovation."

Estonia coalition close to collapse

The government of the Baltic state of Estonia was on the edge of collapse last night after six ministers from the junior coalition partner resigned, Reuter reports from Tallinn.

The Reform party, led by Mr Siim Kallas, who quit yesterday as foreign minister, will decide today whether to leave the government.

The year-old government is the sixth since Estonia regained its independence from the former Soviet Union in 1991.

The resignations come after a row over a co-operation agreement between the Coalition party of Mr Mart Vaehi, the prime minister, and the leading opposition group, the Centre party. The Reform party was incensed by a clause providing that Mr Vaehi's party would work to include the Centre party in the coalition. It gave the prime minister until yesterday to scrap the deal.

Mr Vaehi has tried to reassure his partners that the deal would not lead to the Centre party joining the coalition. He insisted that the working meant only that the Coalition and Centre parties would work together to "strengthen democracy".

The previous government was a Coalition/Centre partnership which collapsed amid scandal after the Centre party leader was found to have taped confidential conversations.

Italy ponders incentives for car market

Pressure grows as low domestic demand hits operating margins

By John Simkins and Andrew Hill in Milan

The Italian government is considering offering incentives to stimulate a car market which is suffering from sluggish domestic demand and growing much more slowly than those in the rest of Europe.

Pressure from trade unions and car manufacturers gathered pace this week when Fiat, the Turin-based automotive group, released quarterly figures showing low domestic demand hitting operating margins.

However, because of political sensitivity over tough spending cuts and tax rises aimed at meeting the criteria for European monetary union, the government was reluctant to address the issue before last weekend's parliamentary approval of the budget.

On Tuesday, Fiat's share price leapt after Mr Augusto Fantozzi, foreign trade minister, confirmed that the government was studying incentives for car buyers which have been used by France, Spain, Denmark and Ireland over the past two years.

"Intervention is needed for the car industry, whether of a financial or fiscal nature," he said, stressing he was referring to possible measures to boost exports.

However, in an interview before approval of the budget, Mr Pier Luigi Bersani, industry minister, said he would prefer incentives at a European level. "The government has an extremely careful attitude on incentives because tampering with the market is also dangerous," he declared.

In the first 10 months of this year, Italy's passenger car market grew 0.6 per cent, while Europe-wide growth was 7.4 per cent. All other 16 markets of western Europe showed faster growth.

Mr Gian Primo Quaglinone of Promotor, an independent Italian car industry analyst, said a case existed for a scheme similar to the French one which ended in September that offered a government bonus and dealers' concessions to customers buying new cars when sending cars above eight years old to be scrapped.

"Incentives are needed to overcome a difficult period and bridge the gap with an upturn in the market in a year or 18 months' time," he added.

Analysts are divided on

petrol prices in Italy could fall by more than 10 per cent if the distribution system were re-structured and allowed to be more competitive, Mr Giuliano Amato, head of the country's anti-trust authority, has said, Robert Graham writes from Rome.

Outlining a formal opinion prepared by the authority on pricing, Mr Amato noted that only Agip, the exploration and distribution subsidiary of Eni, the state-controlled oil group, had a countrywide system of storage, stemming from the mid-1970s, when the oil majors all but withdrew from Italy.

Foreign companies have now returned, but still rely on Agip storage, for which they pay on a swap basis. Mr Amato suggested storage facilities be transferred to a consortium open to all companies operating or wishing to operate in Italy. He recommended the concession system for opening petrol stations be scrapped in favour of simple permits.

the benefits of incentives. Mr Nick Potter, of Credito Italiano in London, said about 250,000 of 440,000 cars bought under incentive schemes in Europe this year would have been purchased anyway.

The drawback to the French scheme was that the lump-sum payments threatened to have a lasting effect on car prices after the scheme had ended, squeezing manufacturers' margins.

Mr John Lawson, of Salomon Brothers, said Italy could boost its market by implementing its legislation on roadworthiness. Italian cars are kept on the road for an average of 16 years, compared with less than 13 in the rest of Europe.

Any boost for the car market might help smooth national negotiations between engineering employers and unions which have been stalled for five months.

Union leaders, who have seen the purchasing power of their members fall, are demanding employers honour a 1993 agreement between government, unions and employers which provides for a pay increase to cover the difference between projected inflation and actual inflation.

Metal workers have threatened an eight-hour nationwide strike for tomorrow.

Ukraine to get \$150m to help shut Chernobyl

By Kevin Dorn, East Europe Correspondent

Western governments are to make a grant of \$150m to help in decommissioning the Chernobyl nuclear power plant in Ukraine. The money is part of the international effort to have the plant shut by the year 2000.

Two of the four reactors at Chernobyl, scene of the world's worst nuclear disaster 10 years ago, are still operating and generate around 5 per cent of Ukraine's power.

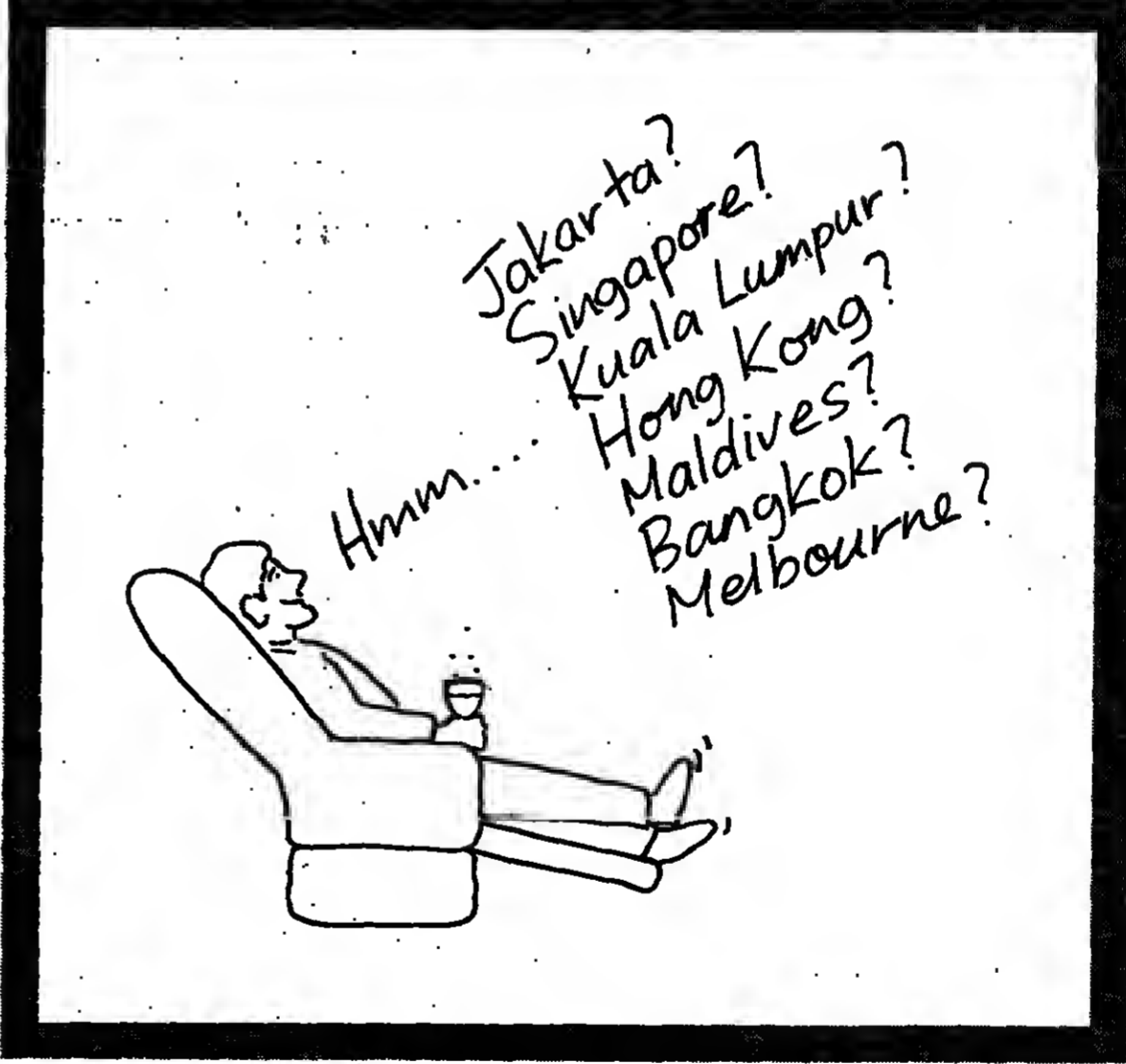
The funds will come from the Nuclear Safety Account, administered by the European Bank for Reconstruction and Development on behalf of 14 western donor countries and the European Union. It will finance an interim storage facility for spent fuel and one for treating liquid radioactive waste, and will also fund some short-term safety measures at the third reactor prior to closure. About half of the work will be carried out by Ukrainian companies.

Western countries have agreed to provide a total of \$350m to prepare the decommissioning of Chernobyl and for interim safety measures.

● The EBRD said yesterday higher income from its bank operations had led to a 63 per cent increase in operating profits to Ecu9.7m (\$99m) in the first nine months of this year. Banking operations, including growing dividend income from the bank's equity holdings and profits from share sales, accounted for 40 per cent of income in the period.

The bank reported a net profit of Ecu2.2m compared with a loss of Ecu1.8m in the same period a year ago following a 82 per cent increase in provisions to Ecu67.5m from Ecu44.6m. Mr Bart le Blanc, vice-president finance, said much of the operating profit had been allocated to "prudent up-front provisioning" to protect a growing portfolio.

New commitments signed in the first nine months rose to Ecu1.1bn from Ecu912m in the same period a year ago, with a growing share of projects in Russia and the financial sector. The EBRD and a group of international banks have agreed to provide a \$42m loan to the Alfa consortium of companies in Russia to fund the opening of six Moscow supermarkets. Some \$17.5m has been syndicated to four banks, Bank Austria, FMO and Rabobank of the Netherlands and BPH in Poland.



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NEWS: WORLD TRADE

WORLD TRADE NEWS DIGEST

Vietnam turns to leasing

The Export-Import Bank of Korea is expected today to receive a licence from the Vietnamese authorities to set up the country's first wholly foreign-owned leasing company. Hanoi has recently warmed to leasing as a way of helping usually financially weak Vietnamese companies get access to high-value machinery for infrastructure projects. Since it first allowed foreign investment in leasing in February, one joint venture has been approved, involving Banque Française du Commerce Extérieur and a World Bank affiliate, the International Finance Corporation.

Jeremy Grant, Hanoi

Mitsui in Uzbekistan deal

Mitsui, the Japanese trading company, has signed a ¥1bn (\$170m) turnkey contract with Uzbekistan for an oil processing plant that is vital to the country's move towards self-sufficiency in energy. Uzbekneftegaz, an Uzbek state monopoly in oil and gas, hopes to produce 6m tons of oil and condensate this year, three times its production for 1991. This should enable the country to save hard currency and reduce Moscow's leverage on the central Asian state.

The Fergana refinery can process 6m tons of oil per year, producing mostly diesel and fuel oil. The new dehydrosulphurisation plant will handle 1.7m tons of oil.

The European Bank for Reconstruction and Development and the Japanese Ex-Im Bank are considering jointly financing the project, with the Uzbek government paying 15 per cent up front.

Sander Thomas, Almaty

Pipeline will double gas flow

A second natural gas pipeline from Algeria to Italy will come onstream by January 1997, doubling the flow rate to 3.5bn cubic metres a year, according to SNAM, a subsidiary of Eni of Italy, which operates the pipeline. SNAM in 1983 started operating the Trans-Mediterranean pipeline, Transmed, which runs for 2,600km from the gas fields of Hassi R'Mel in Algeria to the Po Valley in Italy.

Transmed, which was designed to transport 1.2bn cubic metres, passes through Tunisia and the Sicilian channel in the Mediterranean. The work to double the gas flow, which started in 1992, was scheduled to be completed by 1996, but some additional improvements in the pumping stations had been necessary.

Reuter, Tunis

Bofors of Sweden yesterday announced it had won a contract to supply anti-armor weapons to the French defence forces. Bofors said the contract for AT4 CS was awarded jointly by the French Direction des Systemes Terrestres et d'Information to Bofors and Thomson Dass Armaments. The systems which will be delivered over three years.

Reuter, Stockholm

Ericsson, the Swedish telecommunications group, has won a SKr1bn (\$150m) order to supply and install switching equipment, from the Thai national telephone operator, Telephone Organisation of Thailand. During the next five years, the number of telephone lines in Thailand is expected to double, giving 20 per cent of the population telecommunications access.

AP-DJ, Stockholm

British Petroleum and Tata, the Indian industrial group, have formed a joint venture company to produce and market lubricants in India.

Tony Tassell, Bombay

American set for \$6bn Boeing order

By Michael Skapinker, Aerospace Correspondent

American Airlines is expected to announce today it will buy over 100 Boeing aircraft worth about \$6bn, provided the carrier's pilots agree a new six-year contract. The pilots' union leadership met yesterday to decide whether to recommend the contract to its members. If it decides not to do so, American is unlikely to make the announcement.

If the union decides to put the contract to the vote, American will announce it will buy Boeing 777s, 767s, 757s and 737s if the pilots vote to accept its offer. American has not released details of the proposed new pilots' contract. If voted on, the result is expected next month.

A decision by American to buy the aircraft would put Boeing ahead of Airbus Industrie, its European rival, for orders won this year. It would provide Boeing with some consolation after USAir's decision earlier this month to buy up to 400 single-aisle Airbus aircraft.

The USAir order was the airline's biggest, and a boost for Airbus, owned by Aérospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aerospace and Casa of Spain.

Airbus suffered a string of defeats from Boeing, with the US company winning a large order from Singapore Airlines at the end of last year and from Malaysia Airlines earlier this year.

Airbus says it has suffered from not being able to offer as extensive a range as Boeing, because it has no

large aircraft to compete with the Boeing 747-400, which carries 400 passengers.

But Airbus is planning to build the A3XX, a 550-seater, to compete with Boeing's "stretched" 747, also to carry 400 passengers.

In a related development, Rolls-Royce of the UK has invited Snecma of France to participate in developing the Trent 900, the British group's engine for the future generation of 550-seat aircraft.

The two manufacturers worked together on

developing engines for Concorde, the Anglo-French supersonic aircraft, but Snecma has a long-term alliance with General Electric of the US, one of Rolls-Royce's fiercest rivals.

The invitation to Snecma was made this week by Sir Ralph Robins, Rolls-Royce chairman, during meetings with Mr Jean-Paul Bechat, head of the French group. Mr Bechat was appointed by the French government in June to replace Mr Bernard Dufour, who had been dismissed.

One of the French

government's complaints about Mr Dufour was that he had allowed the relationship with GE to deteriorate which suggests Rolls-Royce might have difficulty winning Snecma's co-operation under its new management.

GE and Pratt & Whitney, also of the US, have joined forces to build a joint engine for the new large aircraft being planned by Boeing of the US and Airbus. The US engine joint venture has said that it would like Snecma to participate in its programme.

Four decades of change

1960s
Lamps, radio, indicators, horn, dynamo, starter

1970s
Breakerless ignition, wiper interval timer, alternator

1980s
Cruise control, electronic fuel injection, mapped ignition, trip computer, lamp failure indicator, service indicator, electronic anti-lock braking system, electronic transmission control

1990s
Remote keyless entry, full powertrain control, traction control, adaptive suspension, theft deterrent systems, crash sensor/diagnostics, traction control, seat memory, integrated control unit, navigation system

2000
Vehicle radar, drive by wire intelligent cruise control, voice-activated switching

Big rise in use of new technology will benefit vehicle makers with electronics subsidiaries

South Koreans to win out in drive-by-wire revolution

By John Griffiths

South Korea's rapidly expanding carmakers stand to gain significant competitive advantage from an upsurge in the electronics content of cars over the next few years, according to research by the Economist Intelligence Unit.

The average value of electronic components in cars will soar from \$920 per car now to over \$1,700 within a decade, with the levels in North America and Japan exceeding \$2,000, according to the research.

While some of the added value will go to specialist electronics component suppliers such as Robert Bosch of Germany, Valeo of France and Rockwell of North America, vehicle makers which have their own electronics subsidiaries or affiliates can be expected to enjoy a "distinct advantage" over rivals without them, the study predicts.

Major South Korean car makers Hyundai and Dae-

wo, as part of large industrial groups with major electronics interests, will be particularly well placed to exploit this growth. They will be joined by Samsung, perhaps the best known of Korea's electronics concerns, which is itself to start car production next year, the study observes.

"These South Korean manufacturers will aim for competitive edge by building their cars around electronics systems, thus offering the customers more features at lower cost while reducing lead time and inventory.

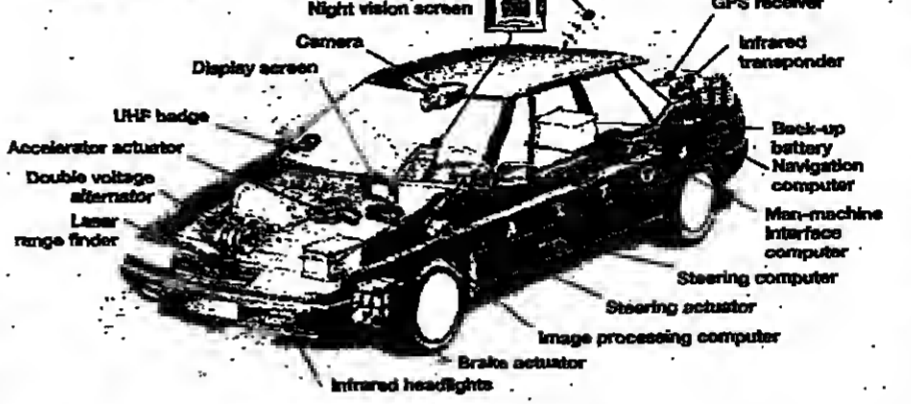
"As a result they will be at least level with volume manufacturers in features, electronics systems and vehicle dynamics by the year 2000," the research concludes.

The report forecasts that the value of the total world market for automotive electronics will reach \$3.5bn in the year 2000, compared with \$3.9bn last year.

The increase will be accounted for partly by adventurous new technolo-

	Electronics content per car (\$)			Automotive electronics market by region (\$bn)		
	1995	2000	2005	1995	2000	2005
Western Europe	1,000	1,200	1,700	11.5	17.1	20.0
Japan	1,000	1,200	2,100	8.8	15.8	19.0
North America	1,000	1,200	1,900	10.0	20.0	25.5
South Korea	640	1,280	1,900	1.4	4.4	6.8
France, Finland, Sweden	308	750	1,200	1.8	2.8	4.5
South America & E. Europe	330	750	1,130	1.3	4.1	6.7
Rest of world (incl. Russia)	530	1,200	1,700	2.0	6.4	8.6
Total				36.8	64.7	83.8

The electronic future



gies such as intelligent cruise control, automatic collision-avoidance and satellite-based navigation systems, and partly by much greater integration of the car's engine, transmission and steering systems under electronic control. "Electronics will become the driving force behind vehicle design," the study predicts.

Some major western car companies, notably General Motors and Ford, and the Japanese industry do have their own large electronics interests and will be better placed than the European industry to repel Korean competition. However, European carmakers could enhance their own competitiveness by quickly agreeing common operating standards for advanced electronics equipments - particularly that involving communications - and forging alliances with electronics companies.

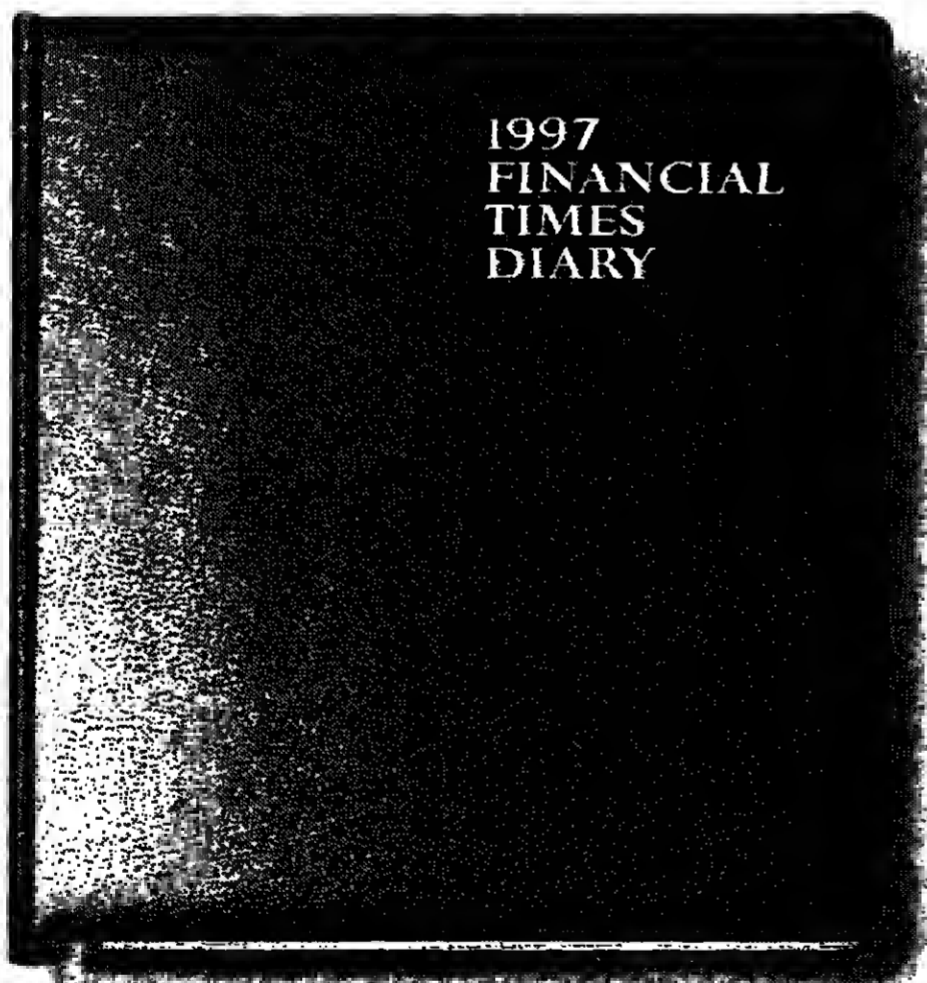
This is already starting to happen. Mercedes-Benz of Germany recently joined forces with IBM to develop a range of electronics components.

The financial importance of some of these systems is already becoming apparent.

Volkswagen and Ford, for example, are poised to launch satellite-based route guidance systems as optional original equipment - developed with Robert Bosch and Philips respectively - for around \$2,000.

"The Electronics Revolution in the Motor Industry," *The Economist Intelligence Unit, 15 Regent Street, London SW1Y 4LR. 0545/5995.*

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APEC SUMMIT IN MANILA

US hopes recede over pact to scrap IT tariffs

By Guy de Jonquieres and Edward Luce in Manila

US hopes of securing solid backing from Pacific Rim governments for a global agreement to eliminate tariffs on information technology products appeared to be receding yesterday, in the face of widespread reservations among leading Asian countries.

The US is seeking to build a united front among the 18 members of the Asia Pacific Economic Co-operation forum, whose leaders hold their annual summit in Manila on Monday. Washington wants a deal finalised at the World Trade Organisation's first ministerial meeting in Singapore next month.

However, although Apec members broadly support the idea of an IT agreement, discussions in Manila have exposed divisions over exactly what it should contain. Several Asian countries, notably Malaysia and Korea, are worried that the deal envisaged by the US would enhance its electronics industries' dominance of world markets.

The lack of unity over the

IT proposal emerged amid growing signs that many Apec members had put forward disappointingly modest plans for voluntary liberalisation to implement the group's objective of freeing all trade and investment in the region by early next century.

A senior US official yesterday cautioned that this week's talks were unlikely to produce bold liberalisation initiatives.

"If I were a short-term stock investor, I would not buy shares in Apec in 1996," he said. "A long-term investment would be more profitable."

A few Apec members which already have low tariffs, such as Hong Kong and Singapore, have offered to scrap them by 2010, while the Philippines has pledged to reduce tariffs on industrial products to 5 per cent by 2004.

However, many other countries are said to have offered to do little, or nothing, more than meet existing commitments under the Uruguay Round world trade deal.

Apec's hopes of achieving

consensus at this week's meetings have also been marred by a US reluctance to go along with a scheme to introduce an Apec-wide visa for business travellers. The US is concerned that the scheme would weaken its control over immigration policy.

Differences over the proposed IT agreement centre on the kinds of products which it would cover. The US wants tariffs eliminated by 2000 on a wide range of items including semiconductors, computers, many types of telecommunications equipment and possibly software.

But many Asian producers of electronics products want a narrower scope, to protect their home markets from US competition. Even Japan, which supports Washington's position, concedes the US stands to gain most from a deal.

Some Apec officials still hope that heads of government can resolve this and other disagreements when they meet on Monday. But others fear any compromises may do little more than paper over the cracks.

Vietnam may bar foreign airport contractors

By Jeremy Grant in Hanoi

Vietnam is likely to ban foreign companies from building and upgrading airports for reasons of national security, dealing a blow to four foreign consortia hoping for a \$185m contract to refurbish the country's largest gateway.

Mr Dinh Xuan Huong, director of the planning and investment department of the Civil Aviation Authority of Vietnam (CAAV), said yesterday his office had been told by the government that only Vietnamese companies should carry out the work on Tan Son Nhut airport, in Ho Chi Minh City.

"So far, the guidelines from the government are to borrow the money and do it ourselves," he said.

The consortia, which were shortlisted by the CAAV in June, are Japan's Maeda Group - which includes trading house Marubeni - Dywidag-Euront of Germany, Airport Group International of the US - which includes Lockheed - and Dar al-Handasah, a Lebanese-backed British company twinned with Balfour Beatty.

All but the British had proposed joint ventures with Vietnamese companies for the project, which would involve building a new terminal capable of handling 10m passengers a year.

Passenger traffic is soaring in Vietnam, and the country urgently needs to expand its airports to cope with future volume. Tan Son Nhut, once the scene of fierce fighting in the closing stages of the Vietnam war, is used by 18 foreign airlines as well as the fast-expanding flag carrier Vietnam Airlines.

Vietnam is sensitive to foreign involvement in its airports because they are owned or part-owned by the military. They are administered by the CAAV, whose board includes senior military figures. "It is very difficult to invest in civil aviation projects in Vietnam because all are related to the issue of security and national defence," Mr Huong said.

Clinton backs action plans for free trade

By Nikki Tait in Sydney

US President Bill Clinton has reaffirmed Washington's commitment to the Asia Pacific Economic Co-operation forum and backed the process of developing country-by-country "action plans" in pursuit of free trade.

"It is very important now that we have the goal of free trade in the area by 2020... that we actually take some concrete steps towards implementing our goal, from tariff cuts to deregulation measures," he said in Canberra.

Mr Clinton stressed that deregulation in the information technology sector was the top priority for the Apec leaders' meeting

in Manila next week.

"Currently, trade in that area is valued at a trillion dollars. It's projected to grow at over 250 per cent in the next 10 years. We need to do more to open up those markets," the president said.

He stressed that US export subsidies in the agricultural area were not designed to harm third parties. "We are going to do everything we can to ensure any future use of these programmes is not directly or indirectly working to the disadvantage of a country innocent of wrongdoing, in this case Australia."

The US Export Enhancement Programme and the Dairy Export Incentive Programme have been a long-standing concern in Australia's large farm sector, with farmers arguing they deflate world commodity prices.

Particular concerns have surfaced recently that the US has been pushing subsidised products into some of Australia's traditional export markets, notably in Asia.

In a later speech to the Australian parliament, Mr Clinton repeated his "free trade" pledge, saying he was committed to work with Congress on market-opening opportunities around the world.

He also emphasised that the US remained committed to playing an active role in the Asian region, despite renewed involvement with Latin America and long-standing ties with Europe.

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Why Cyprus ?

Hundreds of multinational companies have their reasons for choosing Cyprus as their regional base of operations. Here are just a few...



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NEWS: INTERNATIONAL

UN leader sees US veto as an honour

By Michael Littlejohns in New York

Mr Boutros Boutros Ghali sees himself as the symbol of the Third World majority against the only remaining superpower...

whether the secretary-general would consider it made much difference... Mr Fawzi said

The secretary-general



Boutros Ghali: proud man and tough master

indigmantly rejected a proposed one-year extension as a "dignified exit" after his 78th birthday.

Since then, officials say, he has received hundreds of letters and telephone calls from Americans and people all over the world declaring support and sympathising with him as the target of the nation that is the UN's biggest financial debtor.

Because he was backed by the OAU, Mr Boutros Ghali now feels an obligation to

continue to stand up to Washington. Still, he acknowledges privately he has almost no hope of prevailing against a determined superpower whose continued support for the UN may well depend on his removal.

But the Security Council's patience is not inexhaustible and there are some signs that other contenders may soon appear, with Ghana already reported to be warring in its support.

In the UN Secretariat, the prospect of the secretary-general's downfall has been greeted with mixed feelings.

An autocratic boss who has surrounded himself with "a team of advisers" who complain that he usually does not take their advice, he is known as a hard task-master.

Mr Boutros Ghali, the grandson of a pro-British prime minister who was assassinated in 1904 when Egypt was a protectorate of Britain, is a proud man who felt deeply wounded when the US informed him last spring that he could not look forward to a second five-year term.

The UN Security Council must now prepare for a mad year-end scramble for a replacement to Mr Boutros Ghali that makes it far more likely that the UN will settle for the "least politically offensive" candidate rather than the best person available, senior officials believe.

The African states are expected to relent and offer other choices following a further US veto - perhaps next week.

The prospect then is for a period of deadlock. The US has proposed no alternative and appears unlikely to do so, if only because France has indicated that Washington's first choice is unlikely to find favour in Paris.

required minimum of 11 votes or he voted if they gain that majority. The final decision then rests with the 185-nation General Assembly, where there is no veto and developing nations have the overwhelming majority.

Despite all the signs that the US will reject any compromise that would leave Mr Boutros Ghali in place after December 31, Mr Paolo Falci, the Italian delegate who will preside over the Council's secret deliberations next month, is still proposing a two-year extension for the incumbent.

If the Africans fail to rally behind a candidate acceptable to the US, western diplomats say they risk losing their chance for the succession. In that case, an Asian is thought to be a likely choice although no one has yet mentioned a name.

INTERNATIONAL NEWS DIGEST

Arafat seeks deal on access

Mr Yassir Arafat, president of the Palestinian Authority, yesterday demanded that Israel renegotiate its 1994 economic agreement with the Palestinians to allow free movement of people and goods in and out of the West Bank and Gaza strip.

Algeria back in the black

Algeria reported a \$2.2bn trade surplus for the first nine months of this year, compared with a \$1.3bn deficit in the same period in 1995.

Chiluba wins flawed election

Mr Frederick Chiluba has won a second and final term as president of Zambia, following a landslide victory by his ruling Movement for Multiparty Democracy in Monday's general election.

Netanyahu orders more cuts

Mr Benjamin Netanyahu, the Israeli prime minister, yesterday said he would seek a further \$1.2bn (\$618m) reduction in the 1997 budget in a move aimed at reducing the deficit and the spiralling current account trade deficit.

How to be an Iranian Islamic feminist

By Roula Khalaf in London

An Iranian charm offensive to soften the image of the Islamic Republic introduced in London this week a hardcore but soft-spoken Iranian "feminist".

women decreases where this dress code is observed," she said. "Basic principles in Islam give women perfect freedom and put them on equal footing with men."

grammes have been relinched and discrimination in higher education has eased. Women may now receive wages for housework and can sometimes in cases of divorce sue for back pay.

changes in the laws seeking, for example, to establish women's right to divorce and to allow men and women to set conditions in a marriage contract.

lively debate on women's issues to flourish in Tehran, often fuelled by articles in a leading women's magazine, Zanan, which pit Islamic texts against each other in legalistic arguments proving that women judges, for example, are permitted under Islam.

Iranian women are nevertheless far better off than their counterparts in neighbouring countries such as Saudi Arabia, where they are prohibited from mixing with men and deprived of even the right to drive cars.

Advertisement for UNISYS featuring the slogan 'The other is information. Because no bank moves a single penny without it. And helping clients manage information - not just process it - is what Unisys does best. That's why Unisys is the choice of the world's most intensive users of information - including 41 of the top 50 banks.' and the tagline 'One of them is money.'

The other is information. Because no bank moves a single penny without it. And helping clients manage information - not just process it - is what Unisys does best. That's why Unisys is the choice of the world's most intensive users of information - including 41 of the top 50 banks. Our solutions help clients with everything from stopping cheque forgeries to integrating global networks. And our consultants help businesses uncover revenue potential hiding in customer data. It's all part of information management - our way of helping you use information as an asset to gain competitive advantage. Call for details and learn what clients like Union Bank of Switzerland learned. When it takes information to run your business, it takes Unisys to help you run it better. http://www.unisys.com/val or phone Tony Locke on +44 1902 212612, fax +44 1902 212632.



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Bucaram polishes his economic plans

By Justine Newsome
in Quito

Ecuador's President Abdalá Bucaram, nicknamed "El Loco" or "the Madman", is putting the final touches to his economic programme, now due for release next week.

Central to it is Mr Bucaram's desire to introduce an Argentine-style currency convertibility plan, under which Ecuador's currency would be fully convertible with the US dollar at a fixed nominal exchange rate.

Mr Bucaram, who has been advised by the architect of the Argentine plan, Mr Domingo Cavallo, believes convertibility would provide the sort of economic discipline that Ecuador needs.

However, there are less enthusiastic about being put into such a straitjacket. For example, the central bank would be deprived of flexibility to deal with

shocks to Ecuador's economy, such as a war with neighbouring Peru or a financial crisis, both of which have occurred in the past two years.

Some analysts question whether Ecuador really needs such a drastic measure, in which money is issued only if backed by hard currency reserves.

Inflation for example, is around 25 per cent, not the 5,000 per cent experienced by Argentina at the time. "Convertibility is not necessary in Ecuador, but it will not be negative or bad either," says one Argentine economist.

Looking at the Argentine experience of 19 per cent unemployment and a strong currency, unions and exporters are not happy at the prospect either.

Mr Pablo Concha, finance minister, has been attempting to soothe nerves. "Convertibility is being satiated because of unemployment," he complained a few days

ago and says there is a lot more to the economic plan.

Indeed, the government is aware that important structural reforms and tight fiscal discipline will be needed to implement such a plan and stick to it. Top of the list, for instance, are measures to make the labour market more flexible, to restructure the current Monetary Board, and to improve supervision of the financial system.

Mr Concha plans to balance the 1997 public sector budget, but in order to do so, a host of reforms to reduce tax evasion, remove exemptions from VAT and even impose new taxes on luxuries are expected.

Telephone tariffs are set to rise up to six times, depending on the sector, from December 1 as state telecommunications company Emelitel is prepared for privatisation in April. Electricity tariffs are set to follow suit.

Reforms to budget-setting procedures, for example, by

removing the executive's discretionary power to raise spending by 10 per cent more than the amount approved by Congress, are intended to complement specific revenue-raising measures.

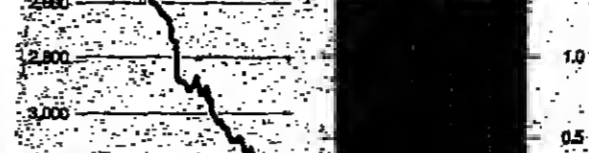
Putting all these reforms mean it may be the end of next year before convertibility is adopted. But it is not just a question of time. Mr Bucaram also faces two big obstacles.

The first is credibility. Completing his first 100 days in office on Monday, Mr Bucaram faced a barrage of criticism for, among other things, the many policy announcements he has made, only to withdraw them a few days later in the face of opposition. Last week, he proposed a 1,000 per cent tax on alcohol and cigarette imports, also to discipline the population, but this week the proposal was withdrawn.

The second problem is political feasibility. Having also spent his first three months in office launching verbal attacks on political opponents from oil unions to congressmen, Mr Bucaram has generated much ill-will.

The largest opposition party, the Social Christian, have already refused to sit down and discuss the convertibility programme with him in advance.

Ecuador looking for economic discipline



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The largest opposition party, the Social Christian, have already refused to sit down and discuss the convertibility programme with him in advance.

As an announcement of the economic plan now coincides with the end of the traditional honeymoon allowed a new government, Mr Bucaram may therefore receive little co-operation from congress when he tries to push through his reform programme.

Unexpected rise in US trade deficit

By Nancy Dunne
in Washington

Sluggish world growth, rising oil prices and the decline in aircraft shipments unexpectedly propelled the US trade deficit to \$11.3bn in September, up 10.1 per cent from August, the US Commerce Department said yesterday.

Merrill Lynch, the financial services group, said the depressing report implied that third-quarter gross domestic product growth, previously reported at 2.2 per cent, would be revised down to about 1.5 per cent.

"Both third-quarter net exports and inventory building will be revised down, though there will be small upward revisions," it said in its economic commentary.

Mr Mickey Kantor, the US commerce secretary, tried to put a cheerful interpretation on the numbers, saying that exports in goods and services were "on track to set new records in 1996", but the

pace of foreign sales has been slowing.

The merchandise trade deficit was the second highest in five years, and the three months' moving average for goods, which economists deem to be more significant than the monthly estimates, was the worst ever. Deutsche Morgan Grenfell, the investment bank, described the goods deficit with a sobriety, "Ugh!"

Analysts had expected an improvement from August's \$10.8bn deficit, revised down to \$10.3bn. Month-to-month numbers are hard to predict," said Mr Charles McMillion of Washington-based MBG Information Services.

"Aircraft sales are always volatile. Either you sell one of those big old suckers or you don't."

Aircraft shipments, accounting for about half of the decline in goods exports, fell from \$1.35bn in August to \$760m. Imports of petroleum products rose by 9.3 per cent to \$5.97bn.

Castro puts his faith in an unlikely ally

A papal visit to Cuba has political as well as spiritual implications, writes Pascal Fletcher

When the visiting Vatican foreign minister, Mr Jean Louis Tauran, celebrated mass in Havana in late October, the congregation treated him to an ovation of cheers and applause at the end of the service.

As he left the church, shouts of "Libertad, Libertad" (Freedom, freedom) were just audible amid the clamour. They were a reminder that Cuba's Roman Catholic Church is deeply engaged in the debate about the communist-ruled island's political future.

This engagement is likely to increase after the announcement, on Tuesday by the Vatican that Pope John Paul will next year visit Cuba, one of the few remaining single-party communist states in the world. The island is the only Spanish-speaking country in Latin America the Pope has not visited.

The announcement followed a historic meeting in Rome between the 76-year-old Pope and Cuba's veteran President Fidel Castro, whose revolutionary government once nationalised Catholic schools and expelled foreign priests and nuns after the 1956 Cuban Revolution. The prospect of a papal visit to Cuba is all the more interesting considering the Pope's formidable reputation as an anti-communist crusader.

Mr Castro's political foes said they were encouraged by the news. Despite the Vatican's declared opposition to the US economic embargo against Cuba, the US State Department said the Pope could play a role in promoting democratic change and protecting human rights in Cuba. Many rightwing Cuban exiles took a similar view.

None of this potential drama was visible at Tuesday's meeting. Mr Castro, who turned 70 this year and was once educated by Jesuits, behaved with all the studied meekness of a child

making his first holy communion. He praised the Pope for his "greatness", humbly described himself as a "modest politician" and said their meeting was a "miracle".

But many Cuban Catholics still remember the early years of the Revolution, when Mr Castro accused leaders of the Cuban Catholic Church, the dominant religion on the island, of siding with "counter-revolution". He later created an atheistic single-party communist state that virtually excluded Catholics from political life for three decades. Nevertheless, diplomatic ties with the Vatican were maintained. Catholic Church activity, although greatly reduced from pre-1959 levels, continued.

In the last decade, the Cuban leadership has moved to improve relations with religious groups. Constitutional changes in 1992 lifted the ban on religious believers joining the Communist

party.

In the post-cold war world, where Mr Castro no longer enjoys the economic and political support of his former Soviet bloc allies, he would clearly prefer to have the Catholic Church as a friend rather than an enemy.

The Cuban leader sees the Vatican as a potential ally in his international campaign to overturn the longstanding US economic embargo against Cuba. The Catholic Church has openly criticised the US embargo, arguing it only hurts the Cuban people.

However, reconciliation with the Catholic Church could represent a political risk to Mr Castro and his regime.

While careful to avoid direct confrontation, the Church is an outspoken, influential, independent force in Cuba, a position which directly challenges the communist government's monopoly of political power in Cuban society.

Earlier this year, Cuba's end more freedom to expand religious teaching. They also press for a role in providing health and social assistance to the population.

These demands are couched in non-political terms, but they clearly threaten to encroach on the ruling Communist party's existing monopoly of social control. The party recently acknowledged the rise in religious worship but blithely concluded: "This does not represent a problem for the Revolution."

The number of regularly practising Catholics in Cuba is still low - one estimate in 1991 put the number at only 300,000 out of a population of 11m. But many more Cubans, encouraged by the increased official tolerance, would identify themselves as Catholics. Church attendance is up and the number of baptisms is reported to be growing rapidly.

This spiritual revival is likely to be boosted by the visit of the Pope.

Catholic bishops, led by Cardinal Jaime Ortega, angered government leaders by criticising an official crackdown against political dissidents and the February 24 shooting down by Cuban MiGs of two small US aircraft. In the past they have attacked the monopolistic official ideology and widespread curbs on personal freedoms.

Despite the recent thaw in relations, the government has made clear it will not allow the Catholic Church to become a focal point of open political opposition. Not long ago, church services on the fast days were heavily policed by plainclothes security agents who quickly pounced on any worshippers shouting anti-government slogans.

Such incidents are rare these days. The Catholic bishops take care to preach a message of brotherly reconciliation, while seeking to increase the Church's role in society. Church leaders call for access to the state media

and more freedom to expand religious teaching. They also press for a role in providing health and social assistance to the population.

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Mr Newt Gingrich yesterday received the unanimous backing of his Republican colleagues in the House of Representatives, all but ensuring his re-election as House Speaker for another two years.

Mr Gingrich was re-nominated by acclamation for the position of Speaker by Republicans, in a move that ended two weeks of speculation about a possible attempt to topple him by disgruntled colleagues.

Since the November 5 election that returned a Democratic president and a

Republican-controlled Congress, several House Republicans have expressed disquiet about the wisdom of re-electing as their leader someone as evidently unpopular as Mr Gingrich.

His nomination by the Republican majority means he is almost certain to be re-elected by the full Congress when it convenes on January 7.

The only potential impediment to Mr Gingrich's re-election is a lingering concern over the outcome of an ethics investigation about some of his fund-raising activities. The report is expected to be released by January.

Republicans back Gingrich

By Gerard Baker
in Washington

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Building the Internet

Ericsson is developing solutions to handle the integration of Internet and telecom networks.

The global information superhighway is here. It's called the Internet. In the space of just a few years, it has evolved from a specialist academic and military data network, to a mass-market information and communication channel with 60 million users worldwide - and growing every day.

If, as suggested by some experts, the astonishing growth in popularity of the Internet continues, with hundreds of millions of Internet users by the turn of the century, it will transform how we use the way businesses communicate, and the way information, education and entertainment services are accessed. Within ten years, communication via the Internet could become as much a commodity as telephony today.

All of this creates exciting new opportunities for individuals and businesses, who will have access to a vast range of new services. But it will also create a new set of challenges for the networks that carry these new Internet services.

Ericsson is developing systems that will allow public network operators and service providers to position their network offering at the heart of the Internet information society over the coming years, building robust and flexible network infrastructures that will handle both telephony and multimedia communications.

Bandwidth and capacity are the key network issues in the Internet era, partly as a result of the sheer number of users of Internet services, but mainly because

Internet services are very different from telephony. A single Web site may have many hundreds of pages of information on offer, and in the very near future the Internet will be widely used as a communication channel for real-time audio and video information.

The backbone network must therefore be able to carry the sheer volume of information. And the access network must be able to deliver services such as real-time video to people's homes and businesses.

At a recent conference in Geneva, Switzerland, Ericsson revealed some insights into the company's Internet development programme.

Internet access Ericsson has several new access systems, using a range of technologies to give business and residential subscribers high-speed Internet access.

A new server integrated in Ericsson's AXE public telecom platform, for example, will support Internet access initially by ISDN, and later by higher-bandwidth ADSL systems.

Low-band and broadband access systems are being developed, and in the near future wireless Internet access over GSM and CDPD will become widely available.

Public Intranet Service Network The Ericsson Public Intranet Service Network allows Internet services to be

managed and controlled within a Public Intranet - a closed part of the Internet with higher security and guaranteed quality for business services.

Internet backbone traffic The Ericsson Internet Backbone System provides a complete solution for the Internet backbone, including transmission equipment and switching equipment (Frame Relay and ATM) for Internet traffic.

Micro Live! The first live demonstration of Ericsson's New RBS mikro base station for wireless networks was staged at the GSM Memorandum of Understanding Association's 35th plenary meeting in Hong Kong. It is the world's smallest radio base station, measuring just 35mm by 408 by 190 mm, yet can handle an area with 180 subscribers.

The results represented the company's twentieth consecutive quarter of uninterrupted expansion.

"Ericsson is now the largest supplier of telecom equipment (mobile and fixed network systems and related equipment such as terminals) in the world", he said. "Our existing customer base is a major asset now and in the future."

The SLC family launched by Ericsson in 1987 has become an industry standard, with many millions in service around the world, not only in Ericsson exchanges.

Now, the launch of a completely new generation family of SLC components looks set to expand Ericsson's share of this specialised market sector. The new devices have been developed to meet the widest possible range of requirements among telecom network operators worldwide.

Eco-friendly optical submarine cable

In collaboration with Tellu, Ericsson has developed a new environmentally-friendly submarine optical fibre cable that uses copper as a water barrier rather than the traditional lead.

It is a repeaterless cable system, containing up to 48 optical fibres in a single cable, and capable of spanning distances up to 300 km without the need for underwater repeaters. In the near future, the distance will be boosted to 350 km with pumped inline optical amplifiers, and the number of fibres per cable increased to 96. One of the first applications for this new cable is the BALTICA project linking Sweden and Poland via the Danish island of Bornholm.

The global market for submarine optical cables is expected to be worth USD 5 billion over the next ten years, as new services such as fax, Internet, video and data transmission call for increased bandwidth and capacity in telecom networks.



To satisfy global demand, Ericsson has developed the new copper-clad repeatable optical cable technology into a range of single- and double-armoured cables with tensile strengths from 5 tonnes to 40 tonnes. The company can supply the new cables as part of complete turnkey projects.

In a class of its own

Ericsson's latest mobile phone fits in the palm of the hand, yet offers 90 minutes of talk time or 24 hours' standby. The AF 738 is designed for use with the analogue AMPS wireless networks in service in the USA, Canada, Latin America, Asia and Australia.

It's a true pocketphone, which measures just 106 mm by 50 mm, with a thickness of 24 mm, and weighing only 137 g. A unique feature is the patented acoustic-channel flip, which enhances voice quality and screens out background noise. A menu of controls makes the new phone very easy to use.

New SLC slots in

Not many people know this, but for every subscriber line connected to a modern local telephone exchange, there is a special electronic component called a SLC (Subscriber Line Interface Circuit) in the exchange. It's a small device that plays a vital part in the subscriber's ability to make and receive phone calls.

These days, the SLC is likely to be a single microelectronic chip. And increasingly, the chip is likely to have been manufactured by Ericsson.

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Fax and e-mail on the move

From now on, just because you're travelling away from the office, you needn't be out of fax reach. Just link your laptop computer to an Ericsson GSM phone, using the latest version of Ericsson's Mobile Office Kit, and you can receive and send faxes at data speeds up to 38.4 kb. You can also send and receive electronic mail messages, and even access Internet services.

World round-up

Russia Three recent orders highlight the role Ericsson is playing in the development of mobile communications in Russia. The sixth expansion order for VimpelCom's D-AMP/AMPS mobile phone network will increase the network's capacity to 120,000 subscribers by mid-1997. Also in Moscow, an Ericsson EDACS digital private radio system is to be installed for voice and data communications for municipal services including public utilities, transport bodies and fire services. Paging systems, conforming to the European ERMES standard, are being supplied in the first phase of a federal paging network that will embrace 15 cities.

Hong Kong Ericsson has received a USD 40m order for DCS 1800 mobile phone network in Hong Kong. The People's Telephone Company network will eventually cover the entire Hong Kong Territory.

Meanwhile, ComNet Ltd is adding a further 3,000 of its state-of-the-art computerised tracking and dispatching system, with Mobilis Radio modems from Ericsson.

UK Thion Security Ltd has chosen the Ericsson Mobilis mobile data network, operated by RAM Mobile Data UK to provide the communications link for a new security alarm service. 5,000 Mobilis mobile data modems have been ordered.

BT has placed a USD 148 m order for AXE exchanges to complete the modernisation of the network.

Axle Ericsson is to supply dual-mode cellular-satellite phones for use with ACeS satellites, in an order worth USD 225 m.

Singapore Police cars have been equipped with mobile data terminals and Modem Radio modems from Ericsson, to provide constant access to the police central computers.

Australia Infrastructure orders received from Vodafone, Australia's newest digital mobile phone network operator, have passed AUD 500 m. It includes a USD 140 m order from Telikom Malaysia based on AXE switching equipment for expansion of the fixed telecoms network over the next two years.

Sweden Ericsson has signed three strategic agreements worth USD 90 m with Tellu, covering the supply of switching equipment to Nordic countries outside Sweden, upgrading of AXE national and international switches in Sweden, and outsourcing of spare parts management.

Indonesia Ericsson is to install an optical fibre access network worth USD 85 m in Jakarta for PT Telkom, Indonesia's largest fixed telecoms operator.

For PT Min Global Telekomunikasi, Ericsson is to supply and install on a turnkey basis 50,000 lines of DRA 1500, the digital radio access system based on the DECT standard.

Thailand The Royal Thai Air Force has selected Ericsson's GIRAFFE Air Defence Radio System for use in air surveillance roles. Thailand becomes the 18th country to choose the system.

Telefonaktiebolaget LM Ericsson, S-126 25, Stockholm, Sweden. Ericsson's information on demand database can be accessed at: www.ericsson.com. Ericsson's 50,000 employees are active in more than 100 countries. Their combined experience in switching, radio and networking makes Ericsson a world leader in telecommunications.

US and China press for better relations

By Tony Walker in Beijing

The US and China yesterday appeared to be intent on bolstering their relationship before a meeting this weekend between President Bill Clinton and Mr Jiang Zemin, his Chinese counterpart.

Mr Warren Christopher, the US secretary of state, said his "intensive series of meetings" with Chinese leaders reflected the importance both sides attached to strengthening relations. But Beijing warned that continued US arms sales to Taiwan threatened improved ties. The US criticised China's human rights record and Mr Christopher requested Beijing to release prominent dissidents.

Mr Christopher's meetings in Beijing coincided with Mr Clinton's first important foreign policy speech since his re-election, in which he called for deeper engagement with China.



Qian Qichen, China's foreign minister, greets Warren Christopher and team yesterday.

Australian visit, Mr Clinton said the US had "no interest" in containing China. "What the United States wants is to sustain an engagement with China... in

A way which will increase the chances there will be more liberty and more prosperity," he said. Mr Clinton and Mr Jiang will meet on the margins of

an Asia Pacific Economic Co-operation forum summit in Manila. The meeting is expected to be the prelude to a series of high-level exchanges including a state visit to Washington early next year by Mr Jiang. Mr Christopher, in meetings with Mr Qian Qichen, China's foreign minister, Mr Li Peng, premier, and Mr Jiang, engaged in wide-ranging discussions which covered arms proliferation, North Korea, the forthcoming Asia Pacific Economic Co-operation meeting in Manila, and Hong Kong. The two sides also agreed to push for the early implementation of a 10-year-old agreement on peaceful nuclear co-operation. Washington has said Beijing must strengthen export controls before it agrees to sanction

transfers of nuclear technology. "As we move forward on nuclear non-proliferation, the US is prepared to consider... further steps in the area of nuclear co-operation even in advance of the 1985 agreement," he said. Mr Christopher added that the US had made clear its "strong concern" about China's nuclear co-operation with Iran. Implementation of the 1985 agreement would open the way for possibly billions of dollars of US nuclear sales to China. The US officials pledged strong support for China's entry to the World Trade Organisation "on commercially meaningful terms". The US is pressing China for further economic liberalisation and improved market access.

Victoria in gas tax settlement

By Nikki Tait in Sydney

A long-running tax dispute between the Victorian state government and BHP Petroleum and Esso Resources, the equal joint venturers in the Bass Strait oil and gas fields, was resolved yesterday, with the government agreeing to make a pre-tax lump-sum payment of about A\$1bn (US\$750m).

The settlement is likely to pave the way for reforms of the state's gas industry, and possibly see eventual privatisation of the state-owned Gas & Fuel utility. Mr Jeff Kennett, state premier, said yesterday the deal should establish a more competitive gas market.

Various proposals would allow for greater competition in the supply of gas and greater interstate gas sales, have been held back partly by the continuing tax issue. For example, BHP said yesterday it believed the deal should clear the way for the Victorian government to approve a pipeline to supply Bass Strait gas into New South Wales.

The Victorian government has already called on consultants to advise how gas industry restructuring might

proceed, and some commentators believe privatisation is likely to be the eventual outcome. The state government has already raised over A\$1bn from the sale of electricity assets to the private sector.

The BHP Petroleum/Esso Resources dispute centred on whether the two companies had the right to pass on the "petroleum resource rent tax" imposed on Bass Strait gas production in 1990 by the federal government, to two state government-owned utilities. The utilities - Generation Victoria and GAS-COR (now Gas & Fuel) - were big gas customers.

The matter has been subject to arbitration, appeal and then settlement discussions for several years.

BHP, Australia's largest company, said yesterday its share of the lump-sum payment would be A\$511m, or some A\$227m after tax and PRRT. The amount it would take in as profit would be A\$167m, of which A\$107m related to the period up to

end-October 1996, and the other A\$60m to gas to be supplied over the remaining contract periods. BHP shares rose on news of the settlement, closing 55 cents higher at A\$18.15.

Singapore sees hint of upturn

By James Kynge in Singapore

Singapore announced yesterday that its non-oil exports rose slightly in October, providing hope that the island state may be starting to climb out of an export slump which has depressed the wider economy.

Investors on Singapore's stock market were heartened by the tentative first signs of a recovery. The benchmark Straits Times Industrials Index rose 24.10 points to close at 2,194.23. The market has fallen steadily over the last few months as scarcely any part of the economy appeared immune from a downturn

precipitated by falling exports, mainly of electronics goods.

Property prices have eased, retail sales show a downward trend, port operators, shippers and shipping companies have encountered difficult times, and some electronics companies have recorded steep losses.

Hence the widespread relief at an albeit modest indication of better times. Exports rose a nominal 1.1 per cent to S\$7.65bn (US\$5.5bn) in October from the same month a year ago. The government's Trade Development Board said, in September exports fell 6.3 per cent and in August 6.2 per cent.

The poor trade performance prompted the government to revise downward its full-year gross domestic product forecast to 0 per cent this year from an original prediction of between 7.5 to 8.5 per cent.

There were signs in October that sales of electronics items, which make up about 60 per cent of non-oil exports, are picking up after a prolonged slump because of soft demand in the US and Japan.

Semiconductor exports, seen as a barometer for the electronics sector, climbed 1.7 per cent after two consecutive months of declines. Sales of disc drives, integrated circuits and micro-

computers to the US - Singapore's biggest market - were also higher. Economists said that the outlook for electronics goods is generally strong because the key US book-to-bill ratio is showing, for the first time in several months, that orders are exceeding actual sales.

The healthier trade picture follows data which showed that Singapore's beleaguered retail sector may be about to recover from months of declining fortunes. Although retail takings in September fell 2.6 per cent compared to the same month a year ago, when compared to August the figures show an increase of 4.2 per cent.

Beijing lets the Yangtze's 'dragon tail' break free

Governor Song Baoru of Sichuan tries to put the best face on things, but from early next year his "empire" will be reduced by a third when Chongqing, the province's largest city and China's most populous, becomes independent.

"I will support the proposal, but I won't be sponsoring the motion," he says of a requirement that the National People's Congress, China's parliament, approve Chongqing's new status, equal to that of a province.

Amalgamation of Chongqing and surrounding areas into an inland "city state" of 30m people out of Sichuan's population of 113m is one of Beijing's boldest administrative moves, and reflects leadership concern about the need to boost activity in the depressed interior.

But there is no doubt Chongqing's "separation" from Sichuan - the city and three surrounding counties account for 26-28 per cent of Sichuan's economy - is a difficult pill for provincial leaders to swallow.

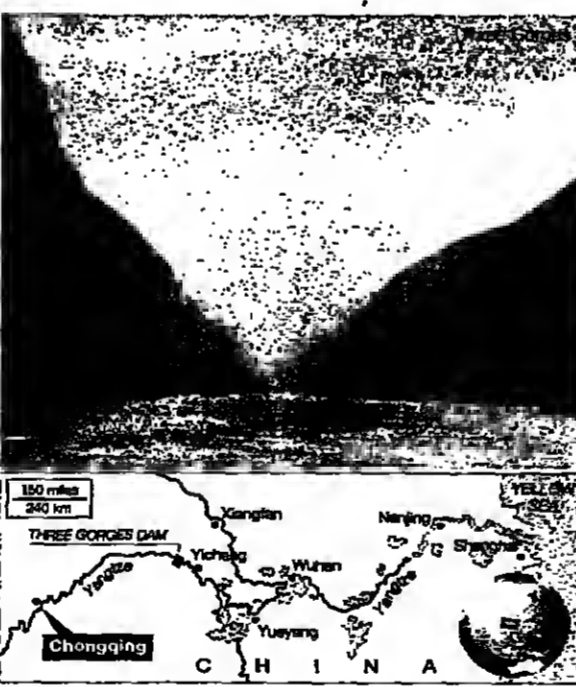
From next spring, Chongqing's status will match that of Beijing, Tianjin and Shanghai - China's existing "city states", all of which are powerful commercial entities and important players in their own right on the national stage.

Sichuan, whose gross domestic product was Yn363.4bn (\$42.5bn) in 1995, ranks fourth in economic output among all provinces, but with Chongqing removed from the equation, its weight will inevitably diminish nationally.

Proponents of Chongqing's "conversion" to a city-state argue the new entity will become a catalyst for development throughout China's entire south-west, benefiting Sichuan in particular.

Governor Song says "separation will be conducive to both China and the province and also beneficial to the Three Gorges project". This project is the giant dam on the Yangtze River, whose waters will lap at Chongqing's doorstep, making the

Chongqing, China's most populous centre, is set to be a city state, writes Tony Walker



river navigable for larger vessels deep into China's hinterland, several thousand kilometres from the sea.

Landlocked Sichuan, far away from booming coastal areas, certainly needs a boost. Despite its importance to China's economy, its share of foreign trade nationally is minuscule. Exports in 1995 accounted for 1.7 per cent of the national total.

Sichuan's share of foreign investment is a fraction of the national figure. By the end of 1995, investment stood at \$3.55bn, against total utilised investment in China of about \$180bn.

Chongqing's leaders expect its upgrading to stimulate investment and return the city to the status it enjoyed in the early 1950s as the administrative centre of the entire south-west region.

In those years, revolutionary leaders, including Deng Xiaoping, China's patriarch and best known Sichuanese, were in Chongqing. Mr Deng served as first party secretary and political commissar

before being called to Beijing as secretary-general of the Communist party.

Mr Qiu Cangdian, Chongqing's executive vice-mayor, describes as a "heavy and arduous task" the city's plans to become the financial services, trading and high-tech centre of the south-west by 2010. In the process, Chongqing would be made into a "modern, industrialised city on the upper reaches of the Yangtze".

Chongqing's trade volume at the end of 1995 stood at Yn48bn. The city plans to double it by 2010 with a growing foreign component. Mr Qiu acknowledges foreign investment in the city and environs of \$700m is "relatively small". In the future, he says, "we'll need to increase that figure drastically".

Completion of the Three Gorges project by 2009 should benefit Chongqing substantially, since it will attract new investment and tourism. The dam will extend for some 663km from

Yichang on the border of Sichuan and Hubei Provinces west towards Chongqing, creating a vast "inland sea" covering 600 sq km.

Not only will Chongqing benefit from the dam, allowing passage to 10,000-tonne vessels, the city is, in any case, becoming the region's transport hub. An expressway to Chengdu, the regional capital, was completed this year; other trunk routes are being built.

Mr Qiu said since the mid-1980s Beijing had recognised its importance and had gradually given it more responsibility, including the right to approve foreign investments in projects up to \$30m.

But Chongqing's new status and proximity to the "showcase" Three Gorges is already imposing additional heavy burdens on local government responsible for an overcrowded city built on steep banks of the Yangtze and Jialing rivers.

Construction of the dam requires expenditure of about Yn20bn to clean up the environment, notably stopping raw effluent pouring into the rivers. It is estimated that 80 per cent of Chongqing's sewage is untreated. Dozens of polluting factories will also have to be closed or moved.

Local entrepreneurs make no secret of their satisfaction at Chongqing's rise in status. Mr Liao Changguang, reputed to be one of the city's richest men, says Chongqing should now find it easier to attract foreign investment.

He predicts that improvements in Chongqing's infrastructure, its existing strong industrial base and improving transport links will facilitate investment, especially from Taiwanese with wartime links with the city. Chongqing was the Nationalist capital during the war with Japan. "If Shanghai is the dragon head of the Yangtze Valley," he says "Chongqing is its tail."

ASIA-PACIFIC NEWS DIGEST

Korea OECD terms to pass

Parliamentary approval of South Korea's membership in the Organisation for Economic Co-operation and Development appears assured, after the main opposition parties decided to drop plans to block a vote on ratification. A parliamentary vote on ratification, the last hurdle to South Korea becoming the 29th member of the OECD, is set for next Tuesday.

In a last-minute compromise, the government agreed to postpone a vote until next week and offered concessions on political reforms to break opposition resistance. The two main opposition parties had tried to postpone OECD entry by several years because they believed economic reforms associated with membership could disrupt the already weak Korean economy and in order to apply pressure to win concessions on proposed political reforms. *John Burton, Seoul*

Vietnam debt scheme in sight

Vietnam's central bank said yesterday it had finalised its response to proposals for settling \$900m in commercial, or London Club, debt. But a senior central bank official admitted: "We try our best to follow the schedule, but there's a delay of about two to three weeks." He denied earlier reports that the delay extended to two months.

The proposals, contained in a draft "road map", set out a repayment and financing regime for Hanoi to clear the arrears, mostly owed to Japanese banks. But the plan must be accepted by Vietnam's London Club creditors before it can start. Representatives of the central bank and a foreign bank advisory committee would meet to draw up a final term sheet, probably in New York in the next few weeks, the official added. *Jeremy Grant, Hanoi*

Pakistan plans samurai issue

The Pakistani government is planning to issue samurai bonds in the Japanese market worth between \$150m and \$300m in the next two months to boost its foreign exchange reserves, a senior official said yesterday. "This is a good time to borrow in the yen market because of the low yen interest rates," he said.

This would be the first time that Pakistan, battered by recent political uncertainty and a downgrade of its investment rating by Moody's investment service, has tapped the Japanese bond market. The planned offer follows a sharp depletion in official foreign exchange reserves. Last week they rose to \$674m, enough to finance just over three weeks of imports, up from \$610m in June. Separately yesterday, the finance ministry reassured depositors that their foreign currency deposits would remain immune from scrutiny by tax officials in spite of a series of anti-corruption laws announced on Monday. *Farhan Bokhari, Islamabad*

Indian foreign bank permits

The Reserve Bank of India is to allow four more foreign banks to open offices in the country, it said yesterday. The four banks are Hanil Bank, Commercial Bank of Korea, Sumitomo Bank and the People's Bank of Sri Lanka, a bank official said. Yesterday's announcement brings to eight the number of foreign banks which have been granted permission to open offices in India since February. *AP-DI, Bombay*

8

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A BETTER APPROACH TO BUSINESS

John Walker

Eurotunnel may resume partial service

By Charles Batchelor and Jimmy Burns in London

Prospects of an early resumption of full train services through the fire-damaged Channel tunnel improved last night following six hours of discussions between Eurotunnel officials and Anglo-French security experts.

This breakthrough followed talks in Calais with the Channel tunnel safety authority, the body responsible for tunnel health and safety.

There was growing evidence that the fire had broken out on the freight shuttle before it entered the French end of the tunnel.

Mr Mike Fortham, assistant general secretary of the Fire Brigades Union, said: "We believe that if Eurotunnel opts for a partial reopening before the damage is repaired and a full inquiry into the fire is completed, there is an unacceptably high risk of a disaster occurring."

At the same time concern about the damage caused by the fire increased with reports that a longer section of tunnel - 740 metres - had been damaged than originally thought.

Latest social attitudes survey shows more people sceptical about uniting with Europe

Gap between rich and poor is 'too wide'

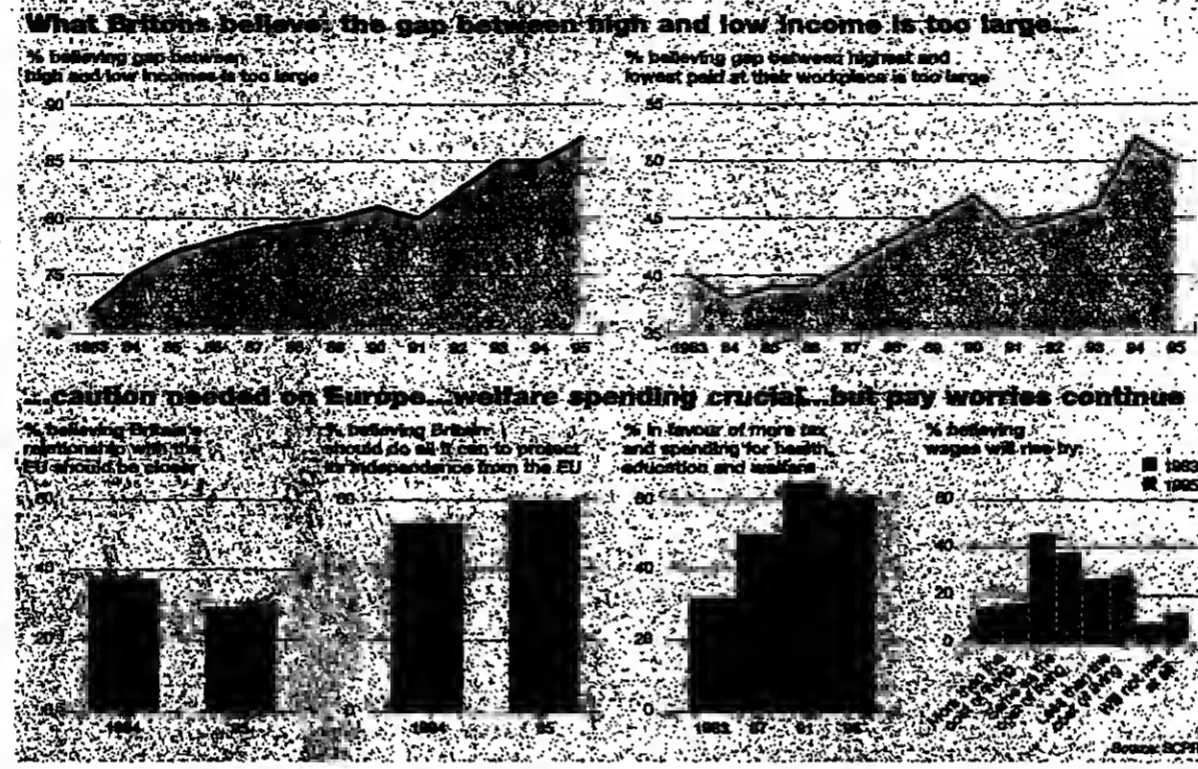
By Nicholas Timmins, Public Policy Editor

Britons are more relaxed about sex and drugs, more Euro-sceptic, more willing to contemplate euthanasia but now believe almost unanimously that the income gap between rich and poor has become too wide, this year's British Social Attitudes Survey shows.

There has been a sharp shift over the past decade in attitudes to legalising cannabis, although a small majority still oppose the idea.

The annual "super-snapshot" of Britons' view of their world shows a nation far from serene at ease with itself, and unclear about its identity.

On attitudes to Europe, a new Euro-sceptic trend may be gathering strength. Only 32 per cent of Britons wanted the country to "unite fully with the European Union" last year, compared with 40 per cent in 1994.



Just 29 per cent believed Britain's relationship with the EU should be closer, compared with 37 per cent in 1994.

One of the survey's stark findings, however, is on incomes. It shows that 87 per cent now believe the gap between the highest and lowest incomes is too large.

That view, a 15 percentage point rise since 1993, is now held equally firmly by all social classes, income groups and levels of education.

But the study also found that the unemployed were even less willing than in 1993 to take what they regard as an "unacceptable" job - 51 per cent would be unwilling to do so as a way out of long-term unemployment.

Finance minister boosted by retail sales surge

By Graham Bowley, Economics Staff

Mr Kenneth Clarke, the UK's chief finance minister, will go into next week's Budget against a background of renewed buoyancy after figures yesterday showed retail sales grew last month at the fastest rate for two years.

But Mr Clarke faced pressure for a further rise in interest rates after separate figures yesterday showed the fastest growth in the quantity of money circulating in the economy since January.

The Office for National Statistics said retail sales volumes rose by a seasonally adjusted 4 per cent in the three months to October compared with the same period last year.

The Bank of England, the UK's central bank, said M4, the broad measure of money supply that includes notes and coins and bank and building society deposits, grew 10.3 per cent in the year to October.

The upbeat picture of consumer spending was reinforced by a survey yesterday for the European Commission by GfK, the polling group, which showed consumer confidence continued to recover at a fast pace this month.

The unexpectedly sharp pick-up in the money supply unsettled financial markets. UK government bonds - gilts - fell half a point before recovering slightly.

Deputy premier backs group to oppose tax plan

By Jane Martinson and David Wighton

Mr Michael Heseltine, the deputy prime minister, is backing the formation of a lobby group composed of all the UK's privatised companies as the government steps up its campaign against the UK's opposition Labour party's windfall tax on the utilities.

and president of the Confederation of British Industry. Together with Mr John Neill, chief executive of Unipart, the car parts group, Sir Colin has invited the heads of almost 90 privatised companies to a private breakfast meeting in three weeks' time.

During the meeting in central London, the two aim to announce "plans without political bias, for the formation of a group dedicated to promoting the success of privatised businesses".

Some groups have already declined the invitation, including National Power, the generating company, and Hyder, the Welsh multi-utility.

Move on referendums proposed

By John Knapton, Chief Political Correspondent

The UK's opposition Labour party yesterday raised the prospect of legislation enshrining the use of referendums in British parliamentary life.

least five referendums. These include devolution for Scotland and Wales, an authority for London, change to the electoral system, and because of a policy shift this week, participation in European monetary union.

Votes could also be held to establish assemblies for individual English regions. In addition, any final settlement for Northern Ireland would have to be ratified by the people of the province, in accordance with the present Anglo-Irish agreement. In

each case, a clause allowing for a referendum would have to be included. Mr Cook, one of the shadow cabinet's strongest proponents of constitutional change, said: "I strongly take the view that what Britain now needs is a parent referendum act."

'Death trap' becomes model oil platform

A \$2bn North Sea project has brought safety to a fine art for partners Shell and Esso

From a distance, the mass of red and yellow steel making up the Brent Charlie oil platform in the northern North Sea looks much as it must have done in the late 1970s, when it was installed as part of the first wave of offshore production platforms.

the-art electronic control systems and an automated drilling rig.

structures which meet the requirements laid down by Lord Cullen's inquiry into the Piper Alpha disaster. It will also extend the life of the Brent field to at least 2010, about 13 years beyond its original life expectancy.

appreciated before work started, say executives. "Previous brown field projects involved thousands of offshore man hours. This was millions," says Mr Reilly.

trillion cu ft of gas currently trapped in the remaining oil. At the beginning of the redevelopment, wholesale gas prices collapsed, leaving executives to wonder whether an already marginal project could end up as an uneconomic one.

UK NEWS DIGEST

Car production hits a record

Car production soared in October to the highest level for that month in the industry's history. With the increase mainly export-led, and output for the year as a whole firmly on course for another 20-year high, the Society of Motor Manufacturers and Traders last night claimed the "outstanding" figures as the clearest evidence yet of a solidly-based resurgence for the industry.

ROADS NETWORK

Call for independent regulator

Britain's roads network should be supervised by an independent regulator in the same way as other privatised utilities, the British Road Federation, representing companies and individual motorists, said yesterday.

CRIMINAL JUSTICE

Report criticises youth system

The youth criminal justice system wastes public money, is inefficient and broadly fails to help victims or prevent re-offending, a new report by the Audit Commission says.

LIBEL ACTION

Two cents for Republic's ex-PM

Mr Albert Reynolds, the former prime minister of the Republic of Ireland, yesterday had his libel damages from The Sunday Times newspaper increased from nothing at all to one penny (2c).

RIVER THAMES

New plan for commuter ferries

Family-owned company White Horse Ferries is the latest enterprise to launch a plan for a fleet of commuter ferries on London's river Thames.

REDEVELOPMENT

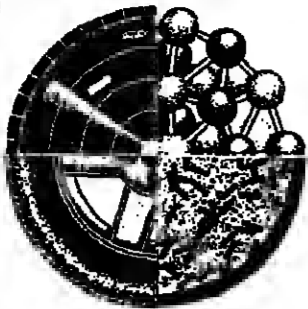
Brent field long-term forecast

Shell and Esso have agreed to extend the life of the Brent field to at least 2010, about 13 years beyond its original life expectancy. With two-thirds of the project completed, Shell executives are confident that they will be able to slash the field's operating costs by up to half.

Robert Corzine

TECHNOLOGY

Worth Watching • Andrew Baxter



Checkpoint scan to check out

With volumes of world trade rising and greater use of containers, customs officials at border checkpoints are under enormous pressure to detect illegal or dangerous objects. But traditional inspection techniques, such as visual and manual searches, are time-consuming and can be ineffective.

X-ray technology is now coming to the rescue. Finnish-based Metorex International has launched Metorscan, which uses X-rays to scan very large objects in real time and onsite, at locations such as border crossings, military installations and ports of entry.

The process automatically transports objects, such as trucks as long as 25m, through a shielded inspection port. The entire contents of trucks, trailers and cargo containers can be scanned in two minutes, helping to locate suspicious items quickly and potentially reducing border delays.

Metorex International, tel Finland 032 9411, fax 032 941300.

Microgyroscope in a chip

Traditional gyroscopes are often used as compasses but their application has been limited elsewhere because of their high price and cumbersome size. Korea's Samsung Advanced Institute of Technology has developed a prototype for what it claims will be the world's first vacuum-packaged microgyroscope.

A microgyroscope is a sensor that can be used to detect angular velocity in a range of directions. Samsung's will measure 1mm by 1mm and is contained within a single

silicon chip, using its own semiconductor process.

Samsung says the prototype heralds a revolution in gyroscope technology, as the highly-sensitive microgyroscope could be used in consumer goods such as hand-held video cameras, cars and information sensors.

Samsung Europe, tel UK (0)181 380 7000, fax 380 7030

Sludge buster muscles in

An innovative low-cost pump system to separate waste slurries into solids and water has been launched by Zardah Separation of the UK.

The Sludge Buster, invented by farming engineer David Hoare, is based on a peristaltic pump, which imitates muscular contraction on the intestines. It is designed to be cheaper than an impeller pump, need little maintenance, pump slurry without getting blocked, run dry without seizing up and start instantly after a six-month lay-up.

Zardah Separation, tel UK (0)1580 71851; fax Charles Dargill on UK (0)171 253 7500

Warpage control on board

Printed circuit boards are used in everything from portable radios to supercomputers, but they can warp if exposed to too much heat. For manufacturers, warpage during production can lead to heavy losses, particularly if expensive components have already been added.

Georgia Institute of Technology has developed an experimental technique called Thermoire to provide real-time data about PCB warpage, helping manufacturers avoid design problems and save money.

The system is based on a special oven with a top made of glass etched with equally spaced parallel lines. A white light is shined onto the PCB, and warpage is captured digitally by measuring the pattern produced by the shadow of the lines on the PCB's surface.

Georgia Institute of Technology, tel US 404 894 3444, fax 404 894 6983

When Ronni Shulman, a public relations officer in New York, discovered she had scleroderma, her emotional pain was heightened by the rarity of her condition. "Not only did I have to face having a potentially fatal disease, I also had to deal with the fact that no one I knew had heard of it. It makes you feel very lonely."

Apart from the isolation, sufferers of rare disorders also experience hopelessness at having a disease with no treatment. There is no cure yet for scleroderma, which causes the body to produce excess collagen, which then encases and hardens skin and internal organs. "In the most severe cases, patients turn to stone," says Shulman.

Yet Connective Therapeutics, a California-based biotechnology company, is in clinical trials for a collagen relaxant called ConXn. If all goes well, the drug may give new hope to patients such as Shulman.

Connective, like many other companies in the US, has been enticed into studying this rare condition because of advantages under the Orphan Drug Law. In place since 1983, the US experience with the legislation may hold some valuable lessons for the European Commission, which is considering a similar law for Europe.

The US legislation is meant to motivate companies to study disorders that would otherwise not generate enough financial rewards. The law guarantees swifter and more lenient review by the Food and Drug Administration (FDA) for any drug addressing a rare disease, which is defined as affecting no more than 200,000 Americans. About 9 per cent of all Americans can be expected to contract a rare condition in their lifetimes.

From a product standpoint, the law has been fabulously successful. Since the act was passed, 140 products for rare disorders have been approved by the FDA, compared to just 10 in the previous decade. "This has spawned a whole new industry," says Marlene Haffner, director of the office of orphan product development at the FDA.

The law may not be wholly responsible for the change. Most orphan drugs in the US have been developed by small biotechnology companies with an interest in studying diseases that the big companies have not made a priority.

For biotechnology groups the promise of having any approved drug to their credit was once strong incentive to pursue approval under the Orphan Drug



'Nothing short of miraculous': drugs include treatments for children with 'bubble boy' disease

Victoria Griffith on the US system for encouraging development of treatments for rare diseases

Orphans' home

Law. Biotechnology groups used the easier route to market to prove their research prowess to Wall Street. "You used to be able to use these drugs to showcase your technology," says Robert Shorr, vice-president in charge of research and development at the biotechnology group Enzon. "But that's not working very well right now. Wall Street doesn't want to see just any drug; they want blockbuster."

Some notable products have already emerged, including treatments for Gaucher's disease, which results in an enlarged liver; "bubble boy" disease, which causes babies to be born with no functioning immune sys-

tem; and premature puberty. "A number of treatments are nothing short of miraculous for some patients," says Abbey Meyers, president of the National Organisation for Rare Disorders. "Babies born with bubble boy disease used to die within the first few years of their birth. Now, they catch diseases like chicken pox, recover, and go on with their lives."

Researching drugs for classification under the orphan drug law presents peculiar advantages and problems, say scientists. Standards under the legislation are not nearly as rigorous as they are for other diseases; a typical orphan drug trial may use 20

patients or fewer. Yet researchers say coming up with even that number is not always easy. When Enzon conducted its trials for Adagen, for instance, there were just 40 to 50 identified sufferers of bubble boy disease in the world. "Locating enough people to do a trial can be a challenge," says Michael Hershfield, the Duke University professor who headed the Adagen experiments. Companies work through academics and national foundations to help identify candidates for trials.

Despite the hurdles, many companies have found working with rare diseases to be a surprisingly lucrative business. The biotechnology group Genzyme, for

instance, had \$215m (\$126.7m) in sales last year from Ceredase, its Gaucher disease product, and Genentech chalked up \$319m in 1995 for sales of Protopin, the human growth hormone.

Rare diseases can yield hefty profits for several reasons. Diseases affecting about 200,000 Americans may be seen as rare under the law, but actually represent a sizable market. Some disorders, moreover, may be considered unusual in the US but are common in other parts of the world, where companies eventually market their products. For example, treatments for malaria, leprosy and African sleeping sickness have all been developed under the Orphan Drug Law over the past decade.

Some companies develop the treatment for a rare disorder only to discover that the drug works on a more common ailment. Human growth hormone was originally developed by Genentech to treat the 10,000 American children with dwarfism. Later, however, it was shown to work on other growth deficiencies.

"The main reason we look at a rare disorder like Werner's syndrome is to see what it teaches us about other, much more common diseases," says David Galas, chief scientific officer at biotechnology group Darwin Molecular. Darwin is studying Werner's, which causes premature aging, to gain insights into cardiovascular disease and osteoporosis. The company is not planning to seek approval under the Orphan Drug Act, however.

In other cases, a single aspect of the research, such as a drug delivery mechanism, can later be applied to treatments for more common - and therefore more profitable - ailments.

To confuse the issue further, some diseases that start out as rare become increasingly common with time. Aids, for instance, was once defined as a rare disease. Early research took place with an eye to orphan drug status, and the condition was not re-classified until 1993.

Because orphan drugs sometimes yield unexpectedly large profits, the FDA has received complaints that the law is being abused by companies looking for a short cut around the FDA's normally stringent approval process. "There has been some talk of defining orphan drugs according to actual sales, rather than according to how many Americans are affected by the disease," says Haffner. "But I think that criticism has been toned down lately. This law has obviously done so much good that everyone is reluctant to fiddle with it."



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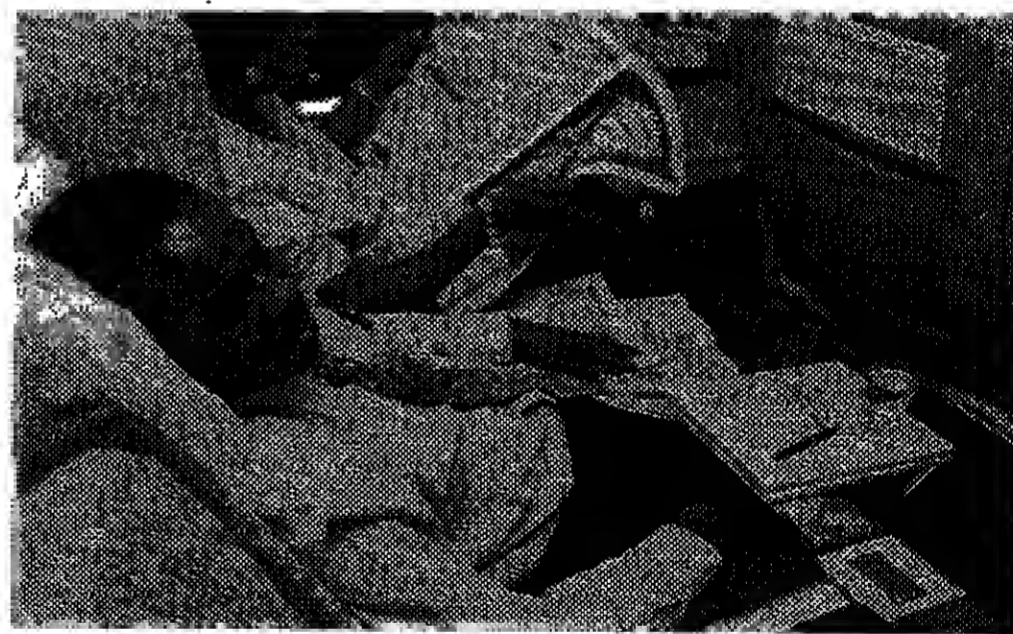
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ARTS

Cinema/Peter Aspden

In the business of retribution

If there is one movie set in the world one should avoid when directing one of cinema's most notorious Method Actors, it is that of an old junk shop. The temptations to do business with just about any implement that comes to hand are simply too great.

A greater capacity to transcend the petty viciousness of the world in which both men have been raised. Donny is plotting revenge against a customer whom he thinks cheated him when buying a rare American buffalo head.

- AMERICAN BUFFALO Michael Corrente
KANSAS CITY Robert Altman
MR RELIABLE Nadia Tass
SUNCHASER Michael Cimino
GABBEB Mohsen Makhmalbaf

retribution: she kidnaps the wife (Miranda Richardson) of a political bigwig after her own husband is kidnapped by a gang of criminals led by the growling, cryptic Seldom Seen (Harry Belafonte).

It is the eve of election day, 1934. His characters, particularly Belafonte's coolly cruel gang leader, deliver scabrous monologues just like the sax players swapping riffs in the Hey-Hey Club, venue of the legendary 'cutting contests' between Lester Young and Coleman Hawkins.

attack for their clumsy handling of Vietnam demonstrations and want to show their human side. Soon, the Mellish hinterland is antiseptic Woodstock; there is free love in the fields, acoustic guitarists strum their pro-Wally anthems, and citizens assert their fundamental freedoms in front of anxious policemen.



Uptight: Dustin Hoffman in 'American Buffalo'

teenage killer who is suffering from a rare cancer, but who hopes to find some kind of salvation at a sacred lake in his homeland. Reynolds is initially hostile, then just sceptical; then he gets bitten by a rattlesnake only to be cured by Blue attaching jump leads to his calf muscle.

playing in the cinema next door. Horrible. Gabbeh is a slow, demanding but rather touching folk-tale from Iranian director Mohsen Makhmalbaf, who follows the adventures of a tribe of carpet weavers, in particular the young woman who has to show endless patience before she can offer herself to her mystery lover.

Opera/Andrew Clark

'Soldaten' simplified

The first observation to make about the new English National Opera production of Zimmermann's Die Soldaten (Soldiers) is that it puts a highly polished facade on the work's horrendous performance difficulties.

The slide towards prostitution and degradation is as sad today as ever, but Freeman does not account for the fact that the choices open to women are also much wider.

ity of the café (portrayed here as a strip club), which finds a ready echo in Zimmermann's jazz idiom but fails to make sense of the on-stage percussion effects.

Musical/Ian Shuttleworth

'Superstar' shows its age

The show which truly put Tim Rice and Andrew Lloyd Webber on the musical map in the 1970s Jesus Christ Superstar is now the cause of the Lyceum Theatre's return as a permanent West End venue after half a century.

when instead of 'darkness over all the earth' a great white light momentarily blazes; almost without exception Gale Edwards' direction makes obvious choices, strong in overall vision but losing its advantage through laxity concerning individual performances and moments.



A courageous performance: Lisa Saffer as the tragic Marie

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT Concertgebouw Tel: 31-20-6718345
Radio Filharmonisch Orkest with conductor Peter Eisinger and the Huelgas Ensemble perform works by Brumel and Birtwistle; 8pm; Nov 23

BERLIN

CONCERT Philharmonie & Kammermusiksal Tel: 49-30-2614383
Berliner Barock-Orchester with conductor Konrad Latta, violinist Madeline Carruzzo, flautists Susanne Ehrhardt and Christine Fehr, cellist Kerstin Feltz and harpist Maria Graf perform works by J.S. Bach, Vivaldi and Handel; 8pm; Nov 22

STADTOPER Unter den Linden

Soloists include soprano Christiane Libor, alto Annette Ester, tenor Christian Voigt and bass Kwangchul Youn; 7.30pm; Nov 23

BRIGHTON

EXHIBITION Brighton Museum and Art Gallery Tel: 44-1273-603005
The Inner Eye: Art Beyond the Visible: the inner world of dreams and fantasies has inspired artists from the Middle Ages to the present day.

SCHONGAUER and others; from Nov 23 to Jan 5

COPENHAGEN

EXHIBITION Charlottenborg Exhibition Hall Tel: 45-33 13 40 22
Cherlotterborg Autumn Exhibition: this year's edition of this event, which was first organised in 1928, features works by 33 young artists from Denmark and other countries in the sections Painting, Sculpture/Installation, Architecture, Lithographic Art, Arts and Crafts, and Photography and Multi Media; to Nov 24

LONDON

CONCERT Barbican Hall Tel: 44-171-6384141
London Concert Orchestra with conductor Paul Wynne Griffiths, sopranos Janice Cairns and Juliet Booth, tenors Alan Woodrow and Peter Brondor and the Goldsmiths Choral Union perform excerpts from Puccini's Madama Butterfly, Manon Lescaut and Gianni Schicchi; 8pm; Nov 23

DANCE Royal Opera House - Covent Garden Tel: 44-171-2129234

The Prince of Pagodas: a choreography by Kenneth MacMillan to music by Britten, performed by the Royal Ballet. Soloists include Doree Bussell and Jonathan Cope; 7.30pm; Nov 22

LOS ANGELES

EXHIBITION MOCA at California Plaza Tel: 1-213-626-6222
Jennifer Pastor: the first solo museum exhibition of Los Angeles-based artist Jennifer Pastor, this exhibition includes a freestanding sculpture and a new series of works that draw on archetypal, pictorial motifs regarding the four seasons; from Nov 24 to Mar 2

MADRID

CONCERT Auditorio Nacional de Música Tel: 34-1-5807800
Real Orquesta Sinfónica de Sevilla y Coro U.P.M.: with conductor Cristóbal Halffter, mezzo-soprano Parastein and pianist Bashkírov perform works by De Falla, Beethoven and Halffter; 10.30pm; Nov 22

EXHIBITION Biblioteca Nacional Tel: 34-1-5807800

Ydemia Universal: exhibition focusing on Francisco de Goya's graphic work. The display features not only works by the Spanish artist himself, but also works by

contemporary artists and old masters, including Casin Bermúdez, Dürer, Carracci, Piranesi, Rembrandt, Rubens, Van Dyck and Tiepolo.

The exhibition features more than 300 works, including prints, sketches, drawings, books and manuscripts; to Dec 19

NEW YORK

CONCERT Avery Fisher Hall Tel: 1-212-575-5030
American Symphony Orchestra with conductor Leon Botstein and the Arnold Schoenberg Choir perform Schmidt's The Book of the Seven Seals; 8pm; Nov 22

VIENNA

CONCERT Wiener Staatsoper Tel: 43-1-51442860
Swan Lake: a choreography by Marius Petipa to music by Tchaikovsky, performed by the Wiener Staatsoperballet. Soloists include Brigitte Stadler and Vladimir Malakhov; 7.30pm; Nov 23

ORGANSOVA, mezzo-soprano Birgit Finnmø, tenor Erndrik Wöhrich and baritone Thomas Hampson; 8pm; Nov 23

PARIS

EXHIBITION Musée Auguste Rodin Tel: 33-1 47 05 01 34
Rodin - Les Marbres de la Collection Thyssen: this exhibition features six marble sculptures by Auguste Rodin, commissioned by August Thyssen (1842-1926) in 1905 and 1908; to Jan 5

ROME

CONCERT Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
Mass No.2: by Bruckner. Conducted by Norbert Balatsch, performed by the Coro dell'Accademia di Santa Cecilia. Part of the Festa di Santa Cecilia; 11am; Nov 22

WORLD SERVICE

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10.00 European Money Wheel

18.00 Financial Times Business Tonight

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COMMENT & ANALYSIS



Economic Viewpoint • Samuel Brittan

Radical welfare reform

Without drastic change, future chancellors will have to work very hard, and engage in cheese-paring, simply to prevent the tax burden rising

The most that Kenneth Clark, the British Chancellor, will be able to do with his "tax cuts" in next Tuesday's Budget is prevent the tax burden increasing, as it automatically does under an incompletely indexed system.

The puritans rely on one of two arguments. One is that the Treasury could severely revise its fiscal projections for the coming years downwards - despite the recent revenue figures.

That this latter charge can even be contemplated strengthens the case for the independent fiscal office which Andrew Tyrie advocates in The Prospects for Public Spending.

If I do not share his optimism that the public spending share will decline further in the medium term, it is because of the very processes he diagnoses. The much-needed reduction of the state's role in many areas has increased the share of spending going to the "Big Three" welfare state activities: social security, health and education.

There are many reasons for current pressure. The stigma of claiming benefits has gone. New categories of need have been discovered, such as one-parent families. Economic growth which provided the means

to satisfy these demands, has slowed. There has in addition been a widening of pay differentials.

In the next century there will be more old people. But a far more immediate pressure arises from the dramatic drop in the proportion of the population of working age actually in the labour force.

The urgent need is to try to find a little room for manoeuvre. Most of the cost-saving suggestions made by reformers involve a shift from tax finance to compulsory private insurance.

Let us also recognise the scope for productivity improvements in education. The resources of modern film and video techniques should enable students to choose from among the half-dozen best lecturers on their subject, on lines pioneered by the UK Open University.

First, the retirement age should be raised in line with the increased expectation of life and the improvement in health. The government should propose an increase in the state pension age and

also discourage employer pressure for early retirement.

Second, we need to recognise that grants for higher education are a transfer to the relatively better off. There is no reason why other taxpayers should pay.

But it is not worth trying to bully the banks into financing student loans. Instead a new corporation should raise funds under government guarantee.

Let us also recognise the scope for productivity improvements in education. The resources of modern film and video techniques should enable students to choose from among the half-dozen best lecturers on their subject, on lines pioneered by the UK Open University.

Third, the justification for state finance for medical care is that the treatment needs of people vary in ways which are not closely related to income and could not be taken care of by indi-

vidual taxes and transfers. This justification is most convincing for "medical catastrophes".

The majority of families have moderate medical needs. For them to receive tax-financed minor treatments or drugs without full payment is simply churning - that is, taking from one pocket and putting it into the other of the same person.

So-called "free" medical treatment should therefore be provided mainly for major operations, rehabilitation after accidents, etc.

Unfortunately, there is a deep-rooted resistance to any attempts to increase retirement ages or to discourage employers from getting rid of older workers. Indeed all the pressures are in the opposite direction.

In many European countries, governments afraid to fight unemployment by stimulating financial policy or liberalising labour markets, have

instead appealed for a shorter working week.

Behind all these moves is the pernicious doctrine that may be called the work-sharing fallacy. This assumes there is a limited amount of work to be done and society is threatened by a shortage of jobs as technology advances.

The root of the error is the failure to see that unemployment in an advanced industrial country is a reserve or margin. This margin could be reduced by better economic policies, but it is a margin nonetheless.

Those who will not accept an argument of principle should look at the historical record. This suggests that neither technological progress nor growth in the working population need lead to more unemployment.

The demonstration effect would extend very much further. Private pension schemes would be bound to be influenced towards a higher retirement age.

After the second world war the German federal republic absorbed millions of refugees. In most of western Europe a large postwar turnaround in the farm population was easily absorbed and millions of guest workers were drawn in from outside.

The opposite European policy is an almost criminal throwing away of the contributions of many people who - with a little encouragement - would like paid work. There is nothing "social" about it.

BOOK REVIEW Philip Coggan

AGAINST THE GODS: THE REMARKABLE STORY OF RISK

By Peter L. Bernstein

John Wiley & Sons, 383 pages, \$27.95

A winning way with odds and evens



We indulge in risk management more often than we think. Insuring our home, taking out a fixed-rate mortgage, or even leaving the house with an umbrella on a cloudy day, all involve a calculation of probabilities.

This well-written and thought-provoking book takes the reader through the history of how mankind has come to think about risk, starting with the first efforts to make sense of one of the species' most enduring passions - gambling.

As the author writes: "Without a command of probability theory and other instruments of risk management, engineers could never have designed the great bridges that span our widest rivers, homes would still be heated by fireplaces or par-

Frank Knight, a US economist writing after world war one, was the first to deal with the problems of decision-making under conditions of uncertainty.

Similarly, economic theory rested for a long time on the concept of humans as rational individuals, acting in the

light of perfect information. In fact, emotions play havoc with the decision-making process.

One experiment gave 10 students \$30 each and offered them the chance of doing nothing or flipping a coin to win or lose \$9.

This is described as the "house money" effect: people who have money in their pockets will choose the gamble; those who start with empty pockets will reject it.

The development of game theory has shown how seemingly irrational outcomes can arise from individuals making what, to them, seem like rational choices.

Mr Blinder looks at the relationship between the Fed and politicians; the Fed wants to control inflation and opts for economic contraction over expansion.

Against the Gods is available from FT Bookshop, Ring Free Call 6500 418 418 (UK) or +44 191 961 1251 (outside the UK). Free p&p in UK.

provides a neat proof of academic theory which predicts that people with losses will gamble in preference to accepting a sure loss.

At one point, Bankers Trust, which handled deals for Gibson Greetings, told the company its losses were \$17.5m (\$10.6m) but offered an alternative: its losses would be capped at \$27.5m, but if all went well they would be reduced to \$3m.

Risk management has come a long way from the early efforts to analyse the best strategies for dice playing. However, sometimes the brightest minds forget that, while risk can be parcelled up in new forms and redistributed, it cannot be eliminated altogether.

Someone will have to pay if California is devastated by an earthquake or if share prices fall by 30 per cent. Elaborate schemes for portfolio insurance proved unworkable at the time of the 1987 crash and may have contributed to that bear market's severity.

Indeed, the author writes in his conclusion: "The science of risk management sometimes creates new risks even as it brings old risks under control. Our faith in risk management encourages us to take risks we would not otherwise take..."

Research reveals that seatbelts encourage drivers to drive more aggressively. Consequently, the number of accidents rises even though the seriousness of injury in any one accident declines.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to "line"). e-mail: letters.editor@ft.com. Published letters are also available on the FT web site, http://www.ft.com. Translation may be available for letters written in the main international languages.

Biggest challenge facing WTO is how to manage itself

From Mr Harry L. Freeman.

Sir, While your leader "Agenda for the WTO" (November 12) covers virtually all of the bases, its order of mention, and hence order of priority, is subject to question. I believe the most challenging tasks before the World Trade Organisation are not pending or new issues, such as financial services and competition policy.

Adding to this challenge is the inevitable accession of China, a country not known for being an automatic follower of any consensus among the quad (US, EU, Canada, and Japan). The Russian Federation and Ukraine will not be easy tasks, either. The WTO power bases are in for significant shifts.

The objective is to maintain, if not enhance, the WTO as the centre of the world's multilateral trading system. Universal membership poses the challenge to existing members of trying to figure out how the WTO can best be run.

From Sir John Craver. Sir, I refer to the article "Business support for monetary union grows" (November 11) commenting on the results of the poll commissioned by the Confederation of British Industry and the British Chambers of Commerce into opinions concerning Emu, the Single Market and the European Union.

There is a danger that the views of the individual recipients of the questionnaire distributed by Mori who happened to reply may be misrepresented as the collective view of a significant minority of British companies.

The survey was not a survey of corporate opinion but a survey of the opinions of the individuals in each of the companies polled who responded. I interact with a wide spectrum of chairman, chief executives and finance directors of leading UK companies. I use every opportunity to inquire into the extent to which company

boards have formally considered whether it is in the interests of their companies and their shareholders for sterling to be abolished in favour of a single European currency now or at some stage in the future.

I have yet to find a single company whose board has in fact formally considered these extremely complex issues and arrived at a considered corporate view, which is a sad commentary on a matter of such fundamental national importance.

That individual respondents be asked to certify in their responses that their views had been formally adopted by the boards of their companies and that they had been authorised to express them. I received no response.

Your treatment of the poll results conveys the clear impression that there was a 100 per cent response to the questionnaire. Thus "... the results showed 28 per cent of companies supporting joining Emu in 1999". It is vital to know what percentage the 1,610 replies represented of the questionnaires sent out; it is probably safe to say that those who failed to respond were overwhelmingly "don't knows".

Public opinion would be better informed were you to obtain from Mori this significant piece of information and publish it.

John Craver, 20 Cheyne Walk, London SW3, UK

the past independence of members' agricultural ministries. We see it also in members' telecommunications and finance ministries. Competition policy brings in wholly new ministries, as would labour and environmental issues.

In the past, General Agreement on Tariffs and Trade negotiations were largely a trade minister's show; no more in the future. How will this work? Are trade-offs possible?

Trade policy people like to discuss policy issues and avoid process issues. In my view, tremendously important process questions are coming to the fore. To paraphrase an old adage, "the devil is in the procedure and process, let alone the details". In a good process will be found good policy.

Harry L. Freeman, 4708 Dorset Avenue, Chevy Chase, Maryland 20915, US

Ill-informed on Pakistan

From Mr S.A. Moïd.

Sir, Mr Daniel Moylan (Letters, November 11) seems ill-informed to say that Benazir Bhutto is held "incommunicado" and that the constitutional obligation to proceed against her was "the presidential coup in Pakistan".

The president had to act under article 58 (2) B of the constitution to dismiss a government which was widely seen as barring the national interests by its incompetence, corruption and abuse of power.

Pakistan's overwhelmingly grew disillusioned with Benazir's economic mismanagement and human rights abuses. Moody's, the US government rating agency, lowered its rating for Pakistan below investment grade, attributing the downgrading to the country's worsening financial position. The International Monetary Fund also suspended its standby loan of \$1.5bn in despair that the plunder of the nation's wealth over the past three years was greater than could ever be imagined.

During the last three years thousands of people in Pakistan have been killed in police encounters and police custody. The Benazir government described these extrajudicial killings as its way of controlling the law and order situation.

S.A. Moïd, Director general, International Centre for Islamic Studies, ICIS House, 144-146 King's Cross Road, London WC1X 9SE, UK

Literary reply

From Mr Terry Bishop.

Sir, Following Harold Pinter's letter about trade with Cuba (November 18), I look forward to trade and industry secretary Ian Lang's review of The Dumb Waiter.

Terry Bishop, Commonwealth Hall, University of London, Cartwright Gardens, London WC1H 9EB, UK

Cardiff Bay advertisement featuring a large stylized 'C' logo, a map of the bay, and text: "Not just virtual... but reality", "Europe's most exciting waterfront development".

Handwritten signature or note at the bottom of the page.

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL. Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Thursday November 21 1996

The trouble with Belarus

It has been tempting for most of the outside world to ignore the republic of Belarus, since it became the least enthusiastic breakaway fragment of the former Soviet Union. It remains the least reformed and most impoverished European part of the former empire - its economy in a state of collapse and its politics bordering on farce.

Belarus still has nuclear weapons - 18 SS-26 nuclear missiles - although no one is quite sure whether it can use them. And it will sit right on the border of an enlarged Nato, assuming that includes Poland, and Russia. Mr Alexander Lukashenko, the unstable, unpredictable and uncompromising state president, is bitterly anti-western and hostile to Nato enlargement. There is no doubt that his rhetoric stokes similar feelings in Moscow, where both communists and nationalists support him.

The current constitutional crisis between Mr Lukashenko and his parliament and judiciary is causing heartache in Russia, and understandable anxiety in Poland, Ukraine and Lithuania, the other neighbouring states. The president is determined to press ahead with a referendum on Sunday to grant him sweeping powers to control parliament and the constitutional court. His prime minister has resigned and thousands of demonstrators are on the streets of Minsk to prevent the parliament from being disbanded.

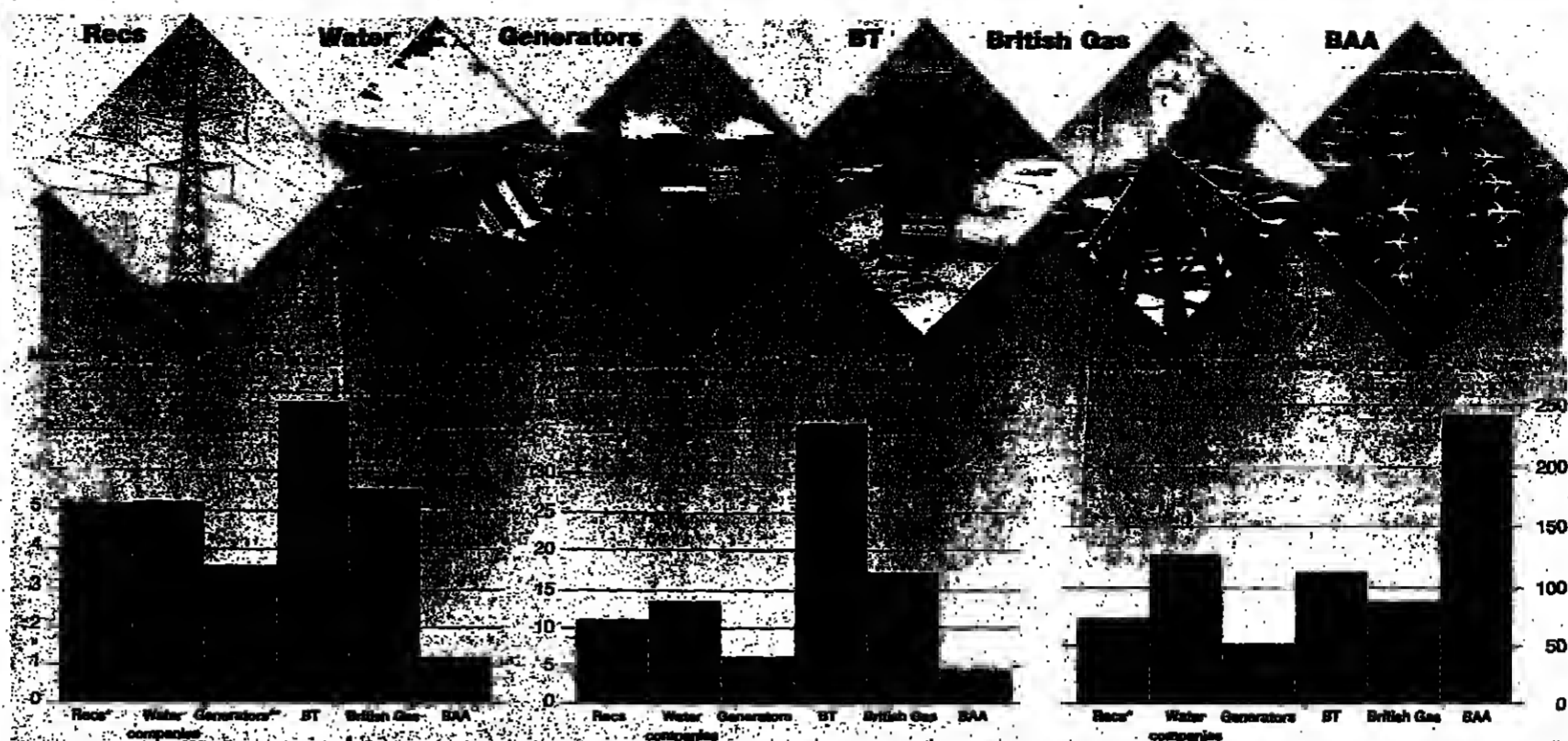
Boutros at bay

Tuesday's 14-to-one vote in the Security Council for the resolution by Mr Boutros Boutros Ghali as UN secretary-general was an impressive moral victory for him and a severe tactical snub for the Clinton administration. It required all the gaucheness of Mrs Madeleine Albright, the US permanent representative, to line up all 14 other members against her. Their anger at the UN's arrogant treatment of the UN finally overcame their sensitivity to the danger of widening the breach between the UN and its most powerful member state.

The administration argues that, with Congress still in the hands of the Republicans, it will be unable to pay off the US's debts to the UN, or of generating broader support for it, so long as Mr Boutros Ghali is at the helm. That may well be true, but in large part the administration's own fault. It used the secretary-general as scapegoat when its own troops got into trouble in Somalia and then blamed him for vetoing air strikes (in Bosnia) which would have put the troops of other member states in similar jeopardy. It has also failed to give him credit for a draconian cost-cutting exercise, carried out largely at the behest of the US, which has badly dented the morale of UN staff.

Flexible pay

Abolition of tax relief on profit-related pay would be a tempting candidate to finance pre-election cuts in headline income tax rates. The cost of the schemes has been rising fast, partly because of their popularity for tax avoidance. When Lord Lawson introduced the tax relief in his 1987 Budget, he argued that it would be another contribution to freeing up labour markets and pricing people back into jobs - along with track union legislation, abolition of wages councils and the encouragement of decentralised pay bargaining. PRP was intended to allow remuneration to fall when profits were depressed as well as to rise in good times. It would thus act like a shock absorber, automatically adjusting wages to profits, and so reduce the pressure on managements to cut costs by firing employees during a recession. Another benefit of PRP, in common with bonuses, share options and other incentive schemes, is to encourage employees to improve the profitability of their companies. A survey by the Wider Share Ownership Council found that 45 per cent of employers thought profit-sharing increased productivity. But these arguments about flexibility and motivation, persuasive as they may be, are not enough to justify continued tax relief. Lord Lawson argued in 1987 that "there is considerable inertia to overcome, so it might make sense to offer some temporary measure of tax relief". US surveys found that 63 per cent of employees prefer to be paid in wages or salaries, and only 12 per cent favour company-wide incentive schemes. Employees seem to prefer predictable levels of pay. But in the UK, much resistance has been overcome. The number in PRP schemes has risen in the past five years from 400,000 to 3.7m - 15 per cent of the workforce. The case for tax relief is therefore much weaker. It may still be in the national interest to encourage such schemes. But in practice many are doing little to enhance labour-market flexibility. Inland Revenue research concluded that some companies manipulated the profits of subsidiaries "to produce reasonably stable levels of PRP". The main purpose is for individuals to avoid up to £1,600 of income tax. For this reason, PRP schemes have been spreading to occupations not traditionally associated with profits, such as universities and charities. Directly pay and profits directly can be a good way of motivating employees - and increasing pay flexibility. But since PRP is often used for tax avoidance, with little change in real economic behaviour, the £1.5bn cost of relief - more than a third of total public spending on employment and training - could be employed more usefully elsewhere.



Regional electricity companies - 40% state-owned until 1995 - compared using the most recent electricity of dividends information from Accounts to 1/96. At 17.6% none of the privatised companies had been taken over. Source: Ofgem

Windfall's big chill

The centrepiece of Labour's economic strategy is attracting criticism at home and abroad, writes David Wighton

Labour's proposed windfall tax on the privatised utilities, the centrepiece of the party's economic strategy, is under threat. The companies have pledged to challenge the tax in the UK and European courts; the Clinton administration is being lobbied to bring pressure on Labour to drop the idea; and the UK government has mounted a campaign to undermine it.

Yet the Labour leadership shows no sign of wavering. "It is hard to overstate how important the windfall tax is for us," admits a senior official. "It is the one politically acceptable source of new revenue we have to fund our modest spending programmes. Without it, we would have very little to offer." Far from backing off on the windfall tax, Labour is actually becoming bolder on it. When it was first floated in 1992, the tax was presented as a means of skinning off the cream from the "fat cats" of the privatised electricity and water companies. A series of newspaper stories had highlighted large increases in the remuneration packages of the utility company directors which included valuable share options.

Labour then estimated the proceeds from such a tax on electricity and water companies at between £500m and £2.5bn. But senior party figures now talk of raising between £5bn and £10bn from all the privatised utilities, including those not caught up in the original "fat cat" controversy. There is an element of gamesmanship in the talk of £10bn, however, since the tax is earmarked solely for two programmes to combat youth and long-term unemployment which Lebor privately costs at between £5bn and £6bn. The widening of the target to all privatised utilities was prompted largely by legal advice. Labour says it was told by its lawyers that, while there should be no fundamental legal problems with the proposed tax, it must take great care not to discriminate against particular companies.

tion would be more complex still. The party says the tax would be designed to reflect three factors: ● The underpricing of the companies on flotation. ● Excessively lax regulation. ● The extent to which the companies have exploited their "monopoly market position" to overcharge customers. This final element has been interpreted as indicating that companies such as BT which now operate in highly competitive markets, would be hit less severely, if at all. Mr Tony Blair, the Labour leader, is particularly concerned not to penalise BT, which is co-operating with Labour plans to link schools to the "information superhighway".

Labour's justification for the tax is simple: the companies have generated excess returns to shareholders because of the way they were sold and regulated. But most independent observers say a utility tax is the wrong way to recoup any windfall gains - a view that some Labour front-benchers share in private. "There is no suggestion that the seller or the buyers knew that they were buying undervalued assets when the utilities were privatised. The seller of a tatty old

oil painting in a car boot sale has no claim on the buyer when it turns out to be an old master. Moreover, the present owners of the utilities are unlikely to be those who benefited from the original gains. Yet unless all of the tax is passed on to customers, at least some of the burden would fall on those shareholders - largely pension funds and private investors. Opponents of the windfall tax believe it would be difficult to persuade the public to go to the barricades to defend the interests of shareholders. So they have focused on the tax's impact on prices, investment and jobs. Labour claims utility prices would not be affected, a position supported by Mr Stephen Littlechild, the electricity regulator. However, Mr Ian Byatt, the water regulator, has suggested prices could rise. Mr Andrew Dilnot, director of the Institute for Fiscal Studies, the independent think-tank, says the impact on prices would depend largely on whether the financial markets believe the windfall tax is a one-off. If there is seen to be a chance of a repeat, investors will demand a higher return from the utilities to offset

the risk. Since the regulators must allow the companies to make a reasonable margin over their cost of capital, prices would rise. Labour insiders concede there would probably be some marginal adverse impact on investment and jobs. But it is hard for ministers to attack the principle of a windfall tax, since the Conservative government imposed such a levy on the banks in 1981. When ministers claim a windfall tax on the utilities is different, Labour replies "you should know". Mr Kenneth Clarke, the chancellor, disclosed in July that he had looked at imposing a windfall tax "in some detail" and concluded it was "a complete non-runner". This may explain why the government has only recently begun to attack the proposal. The companies have also found it hard to oppose the threat of a windfall tax. In part, this reflects the success of Labour's campaign against the "fat cat" directors which has made them chary of putting their heads above the parapet. Says one utility chief executive: "If I start attacking the tax too hard Labour will only turn on me and I will have tabloid journalists camped out on my lawn again. All my share options have gone, so the one person the tax won't affect is me."

However, the US energy groups which have committed almost \$5bn to buying UK regional electricity companies may be less chary. They could face a tax bill of more than \$500m and could argue they did not benefit from the earlier windfall. The Americans have started lobbying the Clinton administration to bring pressure on Mr Blair to drop the idea. Opponents hope to force Labour into another embarrassing policy U-turn, and remove the only additional source of income that is allowing it to promise higher public spending. But Labour insiders insist they will resist all attempts to undermine the tax, simply because it would jeopardise the party's only promise on extra public spending.

John Kingman

Marked down by the market

In theory, valuing the UK utilities should be easy: with few of the businesses facing significant competition, revenues are predictable. In practice, their share prices have often proved volatile. They have also tended to bear little relation to attempts to value the companies on a fundamental basis. For example, UBS believes the theoretical worth of the National Grid, which runs the national electricity network, is about £4.1bn. But the stock market values the company at £3.2bn.

In large part, this reflects fears over what a Labour government would do, and in particular the impact of the planned windfall tax. "Without details from Labour, the market fears the worst. This is an important contributing factor to the scale of the gap," says Mr Ian Turner at UBS. The impact of such fears has varied between sectors. Water shares are thought by most analysts to be over-compensating most for political risks. They are now yielding a prospective return of 7.2 per cent on average. "It has to be a pretty broad judgement, but the sector looks fundamentally undervalued at these levels," says Mr Bill Dale at SBC Warburg. Shares in the regional electricity companies, by contrast, have been buoyed by bid speculation. Prices paid by

John Kingman

Big pots get roasting

These days, executive pay packages, including options and bonuses, are getting so big that they are being roasted. The average CEO package in the UK last year was worth £1.5m, up from £1.1m in 1995. The average UK CEO package last year was worth £1.5m, up from £1.1m in 1995. The average UK CEO package last year was worth £1.5m, up from £1.1m in 1995.

Hard grafter

Pakistan's determination to rid itself of graft has shifted up a notch, with the appointment of an experienced local back as adviser to the prime minister on political affairs and accountability. Najam Sethi, editor of the weekly The Friday Times, and a correspondent for The Economist magazine, has

Stone age sales

Millions of people annually visit the Tower of London, one of the UK's star tourist attractions. It is now being marketed as a "stone age" attraction, with the aim of attracting a younger audience. The tower is being marketed as a "stone age" attraction, with the aim of attracting a younger audience.

Pulchritudinous

The police chief and top dog at the high court in Karnataka, India, have been ordered to attend the Miss World beauty pageant being held in Bangalore, state capital of Karnataka, in India on Saturday. The divisional bench instructed them to attend to ensure the upholding of its ban on "any indecent exposure of the body amounting to obscenity or nudity". To add insult to injury, the court has told officials and ministers attending the contest that they should pay for their own tickets. All in the name of hearing Miss Ruritamba's aspirations for a better world.

100 years ago

The Crown Prince's visit to the ancient port of Bari was on its best behaviour last month when the Crown Prince of Naples with his fair consort, Princess Helen of Montenegro, paid a passing call. From an exchange we learn that the City Fathers assembled in solemn conclave to discuss the weighty question of the manner in which the Royal guests should be received. Their deliberations resulted in the following municipal edict: "Citizens of Bari, it is your duty to clean the streets of all unseasonably noises. Bagged and fastened washing linen must be taken away from the windows. Little children must no longer run naked in the street; goats, cows, hens and drunken men must be kept at a proper distance, no dust bins may, for three weeks, be emptied into the streets; licensed coachmen are forbidden to wear ragged livery, and are advised to borrow disused police uniforms."

50 years ago

U.S. Coal Miners Idle Nearly one-third of the United States' 400,000 soft-coal miners were already idle yesterday as to-night's deadline approached for the threatened nationwide strike. Estimates put the figure as high as 125,000.

LEGAL DEFINITIONS
ambiguous a. 1 person who writes the wrong word equally well with the right and left hands
2 words in a contract which have an obscure or double meaning. See ROWE & MAYER; comp (24 0711-348 4282)
Rowe & Mayer
LAWYERS FOR BUSINESS

NU-WAY MAKING A WORLD OF DIFFERENCE
WOLSELEY

Reforms give US banks access to wider markets

By John Authers in New York

US banks will be given substantial extra powers to underwrite securities and sell insurance under regulations announced yesterday by a branch of the US treasury.
Mr Eugene Ludwig, the comptroller of the currency who regulates about a third of the nation's banks, said that under the new rules banks would be allowed, on a case by case basis, to set up arms-length operating subsidiaries to move into new activities.
This represents a significant breakthrough in the long-running campaign by US banks to end the strict controls on their business enshrined in the Glass-Steagall Act. This barred commercial banks from underwriting securities or selling insurance.
Bankers now believe they can gain extra powers without repealing Glass-Steagall. The American Bankers Association

described the latest move as "ground-breaking".
Mr Ludwig said Glass-Steagall reform would be "good public policy", but added that the narrow focus by policy-makers and industry lobbyists had "failed to address more compelling public policy questions".
His move received a qualified welcome from Mr James Leach, chairman of the House banking committee, who said it was a "step towards bank modernisation", but Mr Alfonso d'Amato, his Senate counterpart, said he was "deeply concerned" and claimed the rules would "subject federally insured banks to excessive risks".
The comptroller of the currency regulates about 3,000 "national" banks out of a US total of about 9,600. The remaining banks are regulated by the Federal Reserve.
The present moves follow an initiative by the Federal

Reserve at the end of July to ease commercial banks' expansion into the US securities markets.
The proposals make it easier for banks to expand their so-called "Section 20" subsidiaries - the separate units through which they are allowed into the securities business.
Under Mr Ludwig's regulations, banks will be able to set up subsidiaries to sell insurance or underwrite securities provided they meet several strict criteria. These include:
• At least a third of the subsidiary's directors must not be directors of the parent bank.
• No more than 10 per cent of the bank's capital can be lent to the subsidiary.
• The bank's equity investment in the subsidiary must be deducted from its capital.
• The subsidiaries must have physically separate and distinct operations and a different name from the bank.

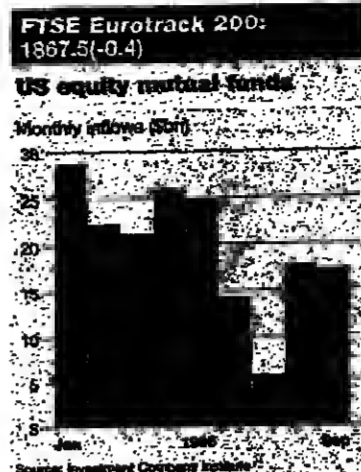
Sports companies to set rules on child labour

By Patrick Harverson in London

International sports goods companies are set to agree a code of practice aimed at eradicating the exploitation of child labour by manufacturers.
Executives from Nike and Reebok of the US, Adidas of Germany, Pentland of the UK and other members of the World Federation of Sporting Goods Industry meet in London today to respond to growing criticism from child welfare pressure groups and trade union organisations.
A recent report by the International Labour Organisation, a United Nations agency, estimated that 250m children under 14 were working in developing countries - with sales of about \$100bn a year - has come under fire recently over the employment of children in manufacturing.
In September, Reebok called on its arch-rival Nike to introduce joint monitoring of manufacturing conditions in Asia after reports that children were employed to make top-brand sports shoes.
The same month Fifa, soccer's world governing body, announced plans for a code of conduct for manufacturers after it emerged that souvenir balls for the Euro '96 championship had been produced by child workers in Pakistan.
The Fifa code, to be presented at today's meeting, will set labour standards for suppliers of Fifa-approved balls, covering the minimum working age, hours and conditions, and union representation.
Although the sporting goods federation is expected to draw up its code of practice along similar lines, pressure groups fear some companies may try to water the proposals down.
"Most of the big companies are anti the Fifa proposal and will fight to make it less specific," said Ms Bethan Brooks of Christian Aid, the charity that has campaigned against the exploitation of workers in the footwear and clothing industries.
Pressure groups are also concerned that any code of practice may not be rigorously policed. Ms Brooks said: "Nike and Reebok already have codes of conduct but they monitor themselves. It's not good enough. We are calling for independent monitoring."
However, Mr Stephen Rubin, chairman of Pentland and federation president, said on Tuesday that the industry planned to set up its own monitoring body to enforce the code. Any companies that broke the code could be expelled from the federation or even have their products banned at the Olympic Games.

THE LEX COLUMN Tinseltown tear-jerker

What is Sony up to in Hollywood? The Japanese electronics giant, which has been humiliated by a string of expensive film flops, now says it eventually intends to float a stake in its music and film division. The idea, apparently, is to raise cash. Executives also say Sony is interested in finding a strategic partner for the division, which includes Columbia Pictures and CBS Records.
None of this makes obvious sense. Why, for example, does Sony's entertainment business need cash? Only if it plans to splash out on another big acquisition. Now, in an ideal world, it might be a good idea to link Sony's "content" operations with a television distribution business like NBC or the new Westinghouse. After all, rivals like Disney, News Corp and Time Warner have both content and distribution. But, having lost billions of dollars in Hollywood, does Sony really want to buy another business it knows nothing about?
Hence, perhaps, the idea of a partnership. That might offer the chance of creating a more powerful industrial combination, while bringing in outside management expertise. Fair enough, except that a fully-fledged merger between Sony's entertainment business and a US TV network is not allowed under US law because Sony is Japanese. At best, some half-way house could be cobbled together. Sony would not like the loss of face, but the most sensible option would be to follow Matsushita, which had a similar disaster with MCA, and sell out.



Granada's stake in a buoyant BSkyB is now worth almost 100p a share, which will ultimately be reinvested in another deal.
However, the next big deal will probably be to split the group into pure hotel/restaurant and media companies. This would smack of returning Forte to the stock market, but it would be a much more efficient and attractively structured Forte. One sticking point for Granada would be what to do with its dull but highly cash-generative television rental business - but there should be buyers. And if it creates two focused high-growth businesses, that should do wonders for Granada shares.

Cable & Wireless

casino mentality. First, monthly inflows have fallen to around half the level of the first half of the year. Second, the average monthly inflow of 1.4 per cent of equity mutual funds' total net assets is well below the 1.7 per cent average in 1993. Third, not all of the money represents fresh demand - some is a redirection of direct holdings into pooled investments.
History also suggests US households can keep their nerve. There is no example over the past 50 years of sustained, panic selling by stock-fund owners when markets have crashed. They will hurt with the rest when the market turns, but they are unlikely to lead the charge.

Cable & Wireless share price is racing ahead of events. Mr Brown's deals in the UK and Germany are shrewd enough, but they do not kick the group into a different league. And there is little prospect of a really big deal to do that trick. True, Mr Brown says he is talking to potential partners. But this year's abortive talks with British Telecommunications exposed the regulatory quagmire any full takeover would run into. While some alliance may be stitched together, it is unlikely to involve a fat premium for C&W shareholders. That makes C&W's outperformance versus HK Telecom since the FT talks all the more curious as, if they had succeeded, there would have been a premium for C&W but not HK Telecom.
Looked at over a longer timescale, the outperformance is even more dramatic - 50 per cent since end-1994. As a result C&W, which used to trade at an embarrassingly large discount to the sum of its parts, now trades on a discount of little more than 10 per cent. Of course, C&W's shares could still motor ahead, but this will be hard unless HK Telecom's also pick up. And if investors expect that, they should buy HK Telecom.

Additional Lex comment on UK generators, Page 23

Dispute on Cuba trade

Continued from Page 1

whether "any action" is constrained by fair trade rules. The US Congress would probably regard that as an affront to national sovereignty.

Canada and Mexico, which have taken the dispute to arbitration under the North American Free Trade Agreement, said they wished to participate in the WTO panel proceedings as interested third parties. Once chosen, the panel has about six months to report.
In July Mr Clinton waived the most controversial Helms-Burton provisions for six months, allowing US citizens and companies to sue foreign companies "trafficking" in confiscated Cuban assets. He should do so again in January.

State department officials are thought to be discussing with their European counterparts what further actions might make a multi-year waiver possible.

Air France orders 20 long-haul jets as profits soar

By David Owen in Paris

Air France yesterday gave a double reminder of the rapid improvement in its once desperate financial circumstances by announcing sharply higher first-half profits and firm orders for 20 long-haul jets.

The state-controlled airline split its order - worth at least \$2.6bn at manufacturers' list prices - equally between Airbus of Europe and Boeing of the US, ordering 10 each of the 252-seat Airbus A340-300s and 288-seat Boeing 777-200 IGWs.

Five of the Airbus are, in effect, confirmation of an earlier order, while the Boeing order replaces one for 15 Boeing 737s and 767s dating from the spring of 1995. The company said it had also taken options for five Airbus A340s and 10 Boeing 777s.

The order caused controversy in France, with the company coming under pressure from ministers to take into account the broader interests of the French economy when deciding which aircraft to buy - since France is a partner in Airbus Industrie.

Air France said its earlier commitment to Boeing meant it would have incurred penalties of several hundred million dollars if it had not ordered the US aircraft - and the 777 offered more business-class seats than Airbus, and flies further without stopovers.

The company said its estimated net profit for the six months to September 30 rose to FF902m (\$158m), the best

American Airlines is expected to announce today it will buy more than 100 Boeing aircraft worth about \$6bn, provided its pilots agree a new six-year contract. The pilots' union leadership met yesterday to decide whether to recommend the contract to members. The deal would put Boeing ahead of Airbus Industrie, its European rival, for orders won this year. Report, Page 4.

half-year result since 1989. This compared with a loss of FF135m in the corresponding period of 1995. Definitive figures are to be published next month. Operating profit was up nearly 30 per cent to FF1.1bn on turnover ahead 5 per cent to FF12.9bn. Passenger traffic advanced by 14.8 per cent freight by 6.7 per cent.
The improvement was in spite of an increase in fuel costs of about FF750m, a burden that was set to get heavier in the second half.
In the year to March 31 1996, the group recorded a net loss of nearly FF1.3bn after provisions of FF72m for voluntary severances and other labour measures. In a further encouraging move, the company cut its net debt from FF19.2bn to FF12.9bn. The figures appeared to mark another step towards privatisation.

The company faces a fierce battle for market share in its home market with British Airways, which recently won its battle to take over Air Liberté, an independent French carrier.

US Mutual Funds

The vertiginous rally in the US stock market continues unabated. In the 10 trading days since President Bill Clinton was re-elected, the Dow Jones Industrial Average has risen by around 400 points or 6 per cent. Some sceptics have thrown in the towel. Others are wondering where the cracks will appear.
Equity mutual funds - the savings vehicles, favoured by US households, which have enjoyed spectacular growth this year - are near the top of any list of worries. It is a position they do not deserve; their likely role in a market crash is overstated, as their role in the market's rally has been.

Flows into these funds have been impressive. The \$122bn in the first 10 months of 1996 is already well above the record \$130bn in 1993. But the figures are hardly evidence of a

FT WEATHER GUIDE

Europe today
Most areas will continue to have cloud and rain. The southern Adriatic, especially the Dalmatian and Albanese coasts, will have thunderstorms and mild temperatures ranging from 20C to 25C. Western Europe will remain very cool with temperatures of 10C in southern France. Western Europe will have frequent wintry showers. The British Isles will have some snow showers. Some snow will fall in the Alps on high ground, although it will not be as heavy as in recent days.

Five-day forecast
Western Europe will have wintry showers. On Friday, southern Europe will have large amounts of rain. Heavy snow is expected on high ground.

Station at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

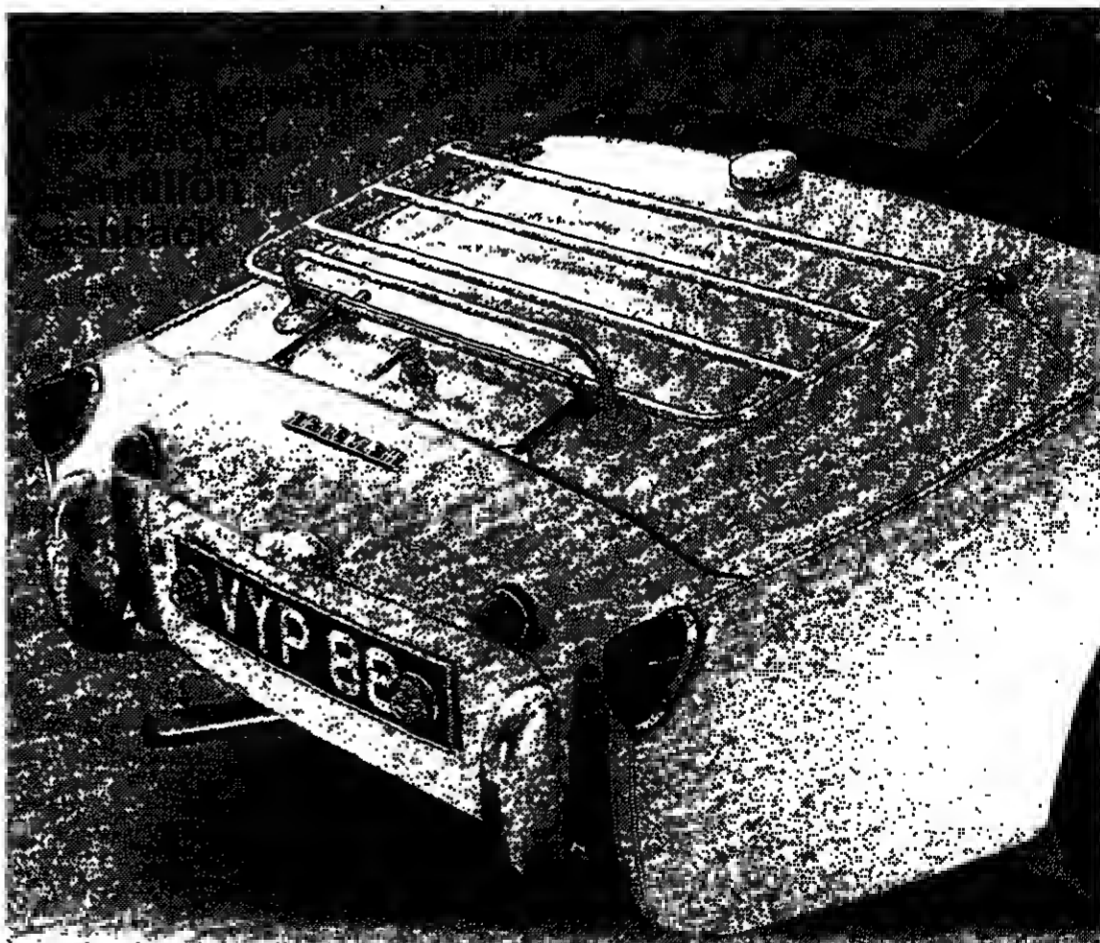
Maximum	Minimum	Forecast	Maximum	Minimum	Forecast
Abu Dhabi	sun 26	showers 12	Paris	sun 10	cloudy 10
Accra	showers 30	showers 12	Prague	sun 10	cloudy 10
Algiers	sun 20	showers 24	Rangoon	sun 33	show 8
Amsterdam	showers 6	showers 20	Reykjavik	rain 25	rain 25
Athens	thund 18	showers 20	Rome	showers 15	cloudy 19
Atlanta	sun 22	showers 4	S. France	cloudy 18	sun 3
B. Aires	sun 29	showers 2	Singapore	thund 31	thund 31
Bangkok	showers 3	showers 7	Stockholm	rain 8	rain 8
Barcelona	sun 31	showers 4	Strasbourg	showers 7	showers 12
	Cape Town	showers 18	Sydney	sun 19	sun 19
			Taipei	sun 25	sun 25
			Tel Aviv	sun 18	sun 18
			Tokyo	sun 18	sun 18
			Warsaw	sun 10	sun 10
			Vancouver	sun 6	sun 6
			Vladivostok	sun 10	sun 10
			Yokohama	sun 18	sun 18

TODAY'S TEMPERATURES

Madrid	cloudy 10	London	sun 10
Moscow	sun 18	Lyon	sun 10
Osaka	sun 18	Manchester	sun 10
Seoul	sun 18	Melbourne	sun 10
Singapore	thund 31	Nairobi	sun 18
Tokyo	sun 18	Sydney	sun 19
Washington	sun 10	Taipei	sun 25
Wellington	sun 10	Tel Aviv	sun 18
Winnipeg	sun 6	Tokyo	sun 18
Zurich	sun 10	Warsaw	sun 10

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FINANCIAL TIMES COMPANIES & MARKETS

Thursday November 21 1996

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IN BRIEF

Nestlé suffers summer setback

Nestlé, the world's biggest food company, said poor summer weather in Europe prompted a second-half slowdown in its sales growth.

Merck forecasts sharp improvement Merck, the German pharmaceuticals and specialty chemicals group, forecast a sharply improved performance for the full year, after lifting net profits 25 per cent to DM\$41m (\$27.7m) in the first nine months. Page 16

Axa posts consolidated sales increase Axa, the French insurer, said it posted consolidated sales of FF\$119.88bn (\$23.66bn) in the first nine months of 1996, up 22.7 per cent from FF\$97.759bn. The group said its life assurance sales in the first nine months of 1996 had risen 38.5 per cent to FF\$64.494bn. Page 18

Chubb buys Hardie Group for \$220m Chubb Security, the electronic alarms and locks group, yesterday agreed to buy the fire protection and building security businesses of James Hardie, the Australian building materials group, for \$220m (\$171.6m) cash. Page 23

Gates cautious on computer growth Bill Gates, the billionaire head of Microsoft, was cautious in predicting growth in the computer industry. With an estimated 70m personal computers sold this year, Mr Gates, speaking to over 10,000 industry representatives at the Comdex trade show in Las Vegas, said it would be difficult for the sector to maintain its historical 15-17 per cent annual growth rate.

Tremors in European bond markets Signs of an upturn in the German economy and news of a large US trade deficit sent tremors through European bond markets. The London International Financial Futures Exchange's December bond futures contract fell to settle at 100.88, down from 101.19 the previous day, ending a succession of solid rises. Page 24

Companies in this issue

Table listing companies and their page numbers: ANZ 22, Abbey National 22, Adidas 14, Air France 14, Airbus 4, 14, American Airlines 4, Axa 16, BNL 16, BP 4, Belfour Beatty 24, Banco Fortesca Brno 20, Bancorner 20, Bank Glsneki 16, Bank IG 16, Morgan Stanley 16, Boeing 14, 4, Bofors 4, CNA 16, CIL Financial 16, CSM 16, CSK 20, Dacia 16, Deutsche Telecom 20, Daxia 16, Endesa 16, Ericsson 4, Esa 9, Eurohannel 9, Fed Dept. Stores 24, Ford 4, Formosa Plastics 22, GE 4, GM 4, GTM-Entrepote 16, Gap 21, Granada 23, 15, 14, HSBG Holdings 23, Hambros Bank 22, Hardie (James) 23, Home Depot 21, Hyundai 4, IBM 4, ING 16

Market Statistics table with columns for various market indices and their values.

Chief price changes yesterday table with columns for stock prices and their daily changes.

Granada moves in direction of demerger

By Scheherazade Daneshkhu and Raymond Snoddy

The Granada group is likely to demerge its television and its hotel and catering interests in a restructuring that could come as early as the middle of next year.

No final decisions have been taken but there is a clear appreciation in the group that creating two separate companies with "pure" assets could enhance shareholder value.

US telecoms group would take stake in transatlantic cable venture

By Nicholas Denton in London

Cable and Wireless, the international telecoms company, is in discussions with Nynex Corp on an alliance that would involve the US regional telecoms operator taking a stake in C&W's planned \$500m transatlantic cable link.

Under the proposed deal, C&W, which yesterday reported a 9 per cent increase in interim profits, would gain greater access to the international traffic generated by the 40 per cent of US multinational companies based in Nynex's home region around New York.

Nynex, which earlier this month approved a merger with its neighbour, Bell Atlantic, would take a 10-20 per cent stake in the joint venture between C&W and MFS Communications, the US-based business telecoms group, to lay a fibre-optic cable between the US and the UK.

C&W did not disclose the subject of its talks with Nynex. Any progress depends on the stance of the US Federal Communications Commission, which has restricted the entry of Baby Bells - US regional operators - into the international telecoms market.

Sale of TV and video rental business could come next year

taken, the move will happen quickly to minimise uncertainty among staff. Indications of Granada's likely future corporate strategy came as the company announced a 37 per cent increase in pre-tax profits to \$80m (\$92m) for the year to the end of September, a figure which excludes \$75.6m in exceptional charges.

Demerger would almost certainly mean the sale of Granada's television and video rental business, which would not fit easily into either entity - the hotels, restaurants and catering company or the media group.

Increasingly, the performance of the rental business - however good it is within its sector - contrasts with the rate of profits growth in Granada's other businesses.

Rental profits grew by only 8 per cent to £125.1m in the year to September 28 1996. This compares with an 80 per cent increase in profits in Granada restaurants - after

there were no plans for a demerger in the short or medium term. Asked for his definition of short or medium term, he deflected the question by joking: "Two days."

There has been speculation in the City for some time that demerger was a strong option for Granada, although at the moment the company is preoccupied with integrating the Forte businesses and selling 16 of Forte's exclusive international hotels.

On the subject of Granada's media interests, Mr Charles Allen, chief executive, was sceptical about the prospects for a digital terrestrial television service capable of offering 36 new channels in the UK - something which the government is very keen on.

Mining groups in Chile urged to invest more

Foreign companies mining copper in Chile have been urged to invest in research and development or risk losing the "welcome" treatment they have been receiving.

A senior executive from Codelco, the state-owned copper company, also urged companies to give more information in Chile about their financial activities.

Mr Ivan Valenzuela, vice-president in charge of Codelco's joint ventures, said the world's big mining groups should be trading on the Santiago stock market.

"Copper is a non-renewable resource, so what we are talking about is how to build up value-added industries, not so much in manufacturing as in know-how, in engineering and machinery," Mr Valenzuela told a private seminar on mining developments.

"That way, Chile has something for the future, if and when the copper runs out."

Mr Valenzuela, formerly Chile's under-secretary for mining, said listing on the Santiago stock market would raise the profile of foreign mining companies in Chile and bring Chilean investors in on their success.

"The general public in Sydney or Toronto or New York or London has much easier access to information about BHP or Placer Dome or Phelps Dodge or ITZ than the Chilean public, where their activities have such a major impact."

C&W in talks on Nynex link-up

By Imogen Mark in Santiago



Thirsty work: Dick Brown (left), C&W chief executive, and chairman Brian Smith, who confirmed discussions had been held with Nynex about a partnership on various initiatives in the US

They agreed to put its UK cable interests into Cable & Wireless Communications last month.

"We have looked at Nynex as a partner in various initiatives beyond Cable & Wireless Communications," Mr Brown said. "With traffic flow and multinational accounts, Nynex makes far more sense as a partner than any other Baby Bell."

Investment bankers believe successful co-operation between C&W and Nynex in transatlantic traffic could pave the way for a deeper alliance once US regulators allow the Baby Bells to link up with long-distance and international telecoms companies.

But C&W's immediate priority remains a deal with China's Ministry of Post and Telecoms under which China would take an interest in Hongkong Telecom ahead of the UK colony's handover, but C&W would retain control.

Meanwhile, C&W reported pre-tax profits excluding exceptional items of \$873m for the six months to September, 9 per cent higher than a year earlier. The interim dividend rises to 3.4p.

C&W shares yesterday fell 1 7/8 to 461 1/2.

While analysts welcomed growth in the turnover of C&W and associates such as One2One, the UK mobile telecoms operator - where it rose 14 per cent - the shares are already trading at a price/earnings ratio of 18.5.

Chilean-led consortium takes control of Rio energy group

By Geoff Dyer in São Paulo

A consortium including Collectra of Chile and Endesa of Spain yesterday bought a majority stake in the Brazilian electricity distribution company Cersj for \$800m (\$687m).

The group of investors, which also includes Electricidade de Portugal, acquired the 70.2 per cent stake in a closed envelope auction at the Rio de Janeiro stock exchange.

The winning consortium will have to make an open offer at the auction price to the minority shareholders of Companhia de Electricidade do Estado de Rio de Janeiro.

Chilecta, which is the main participant, is investing \$400m in the acquisition while EdP is spending \$418m and Endesa \$380.5m. The successful privatisation follows the sale in May by the state of Rio de Janeiro of a 60 per cent stake in Light, another electricity distribution company.

Cersj, which supplies just under a quarter of the state's electricity and has 1.2m customers, made losses of \$462m last year and has around 4,400 employees. Analysts said Cersj had considerable growth potential but would need significant investment as its rate of energy losses of 28 per cent a year was well above the Brazilian average of 12 per cent.

The winning consortium beat off competition from two other groups - one led by Light, which included Electricite de France, Houston Power Industries and AES of the US, the other by Escelsa, the electricity distributor from the state of Espirito Santo, in company with GTD, a consortium of Brazilian pension funds, and the Florida Power & Light Company.

The successful sale to a group including foreign investors will provide a boost to the plans to privatise other Brazilian companies in the sector.

The foreign companies have not been dissuaded by the absence of a regulatory structure for the industry, which has still to be approved by Congress.

The state of Minas Gerais intends to sell a 88 per cent stake this year in Cemig, its distribution company, while the state of São Paulo, which has the largest electricity system in Latin America, is investigating ways of splitting up its network for privatisation.

Despite the poor results, Tokyo Electric is maintaining its interim dividend at ¥25, even though that is not covered by earnings per share of ¥22. It also expects a much better second half because, under Japan's regulatory system, power companies are required to pass on variations of 5 per cent or more in fuel costs after a three-month lag.

Tokyo Electric forecasts that its full-year turnover will be flat at ¥5,082bn, hitting the decline in profits before tax to 10 per cent at ¥1,000bn.

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Tokyo Electric profits dive

By Daniel Bögler in Tokyo

A cut in electricity charges, rising oil prices and a weaker yen combined to halve interim pre-tax profits at Tokyo Electric Power, the world's largest quoted power company.

The group, which serves metropolitan Tokyo and parts of eastern Japan, saw its pre-tax profits fall 51 per cent to less than ¥2bn (\$38m) for the six months to September.

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COMPANIES AND FINANCE: EUROPE

Merck confident as profits rise 25%

By Sarah Althaus
in Frankfurt

Merck, the German pharmaceuticals and specialty chemicals group, yesterday forecast a sharply improved performance for the full year after lifting net profits 25 per cent to DM341m (\$227m) in the first nine months.

"There's no question that we won't achieve a substantial increase in profits again for 1996," Mr Hans Joachim Langmann, chairman, said.

He added that, if growth in the final quarter matched

that of the first three, this would translate into a profit rise of about 30 per cent for the full year. However, the size of the increase would depend in part on developments in the ascorbic acid and domestic pharmaceuticals markets in the last three months. In 1996, group net profits totalled DM355m.

Merck, which went public just over a year ago, was also confident for 1997. "After the developments we have seen in 1996, we can't be anything less," Mr Langmann said, pointing to

above-average growth in its pharmaceutical activities and "remarkable progress" in other divisions.

The results beat analysts' expectations and the shares closed DM2 higher at DM56.75. "The pharmaceutical sales were surprisingly good... it shows that things are going much better in the US than most of us had expected," said Mr Thomas Schliesse, analyst at Delbrück in Düsseldorf.

Nine-month operating profits rose 10.8 per cent to DM693m, which Mr Schliesse

said matched growth rates registered at the big German chemical groups in the same period. Net profits before minority interests rose 17 per cent to DM365m.

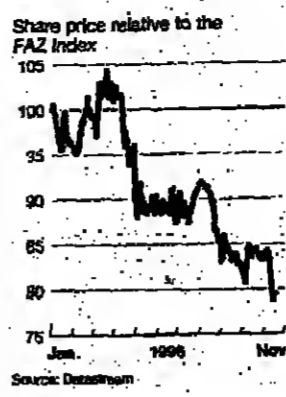
Group sales rose almost 10 per cent to DM5.2bn, fuelled by pharmaceuticals. Mr Langmann also cited acquisitions, a normalisation of exchange rates, and gains in North America, where strong pharmaceutical demand led to an 18 per cent rise in turnover. Adjusted for acquisitions and currency fluctuations, sales

were up about 7 per cent. Latin American turnover rose 14 per cent while Europe - Merck's core market - and Asia showed more modest growth with sales up 7 per cent in both regions.

Pharmaceutical sales rose 13 per cent to DM2.9bn, with a particularly strong contribution from generic and self-medication products.

Sales of laboratory chemicals and equipment climbed more than 6 per cent to DM1.3bn. Turnover in specialty chemicals rose 5 per cent to DM972m despite pres-

Merck



Share price relative to the FAZ Index
Source: Deutscher Wertpapiermarktverband

EUROPEAN NEWS DIGEST

Soros buys stake in Moulinex

Companies controlled by Mr George Soros, the Hungarian-born investor and speculator, have bought a 5.5 per cent stake in Moulinex, the struggling French household appliances group, according to SBF, the French stock markets association. The company is in the throes of a restructuring plan which resulted in a FF600m (\$118m) provision being included in its results for the year to March 31 1996. This took net losses to a record FF702m, the fourth consecutive annual loss.

David Owen, Paris

Metallbank to be sold

Metallgesellschaft, the German industrial and trading concern now back in profit after its near-collapse almost three years ago, is selling its banking subsidiary to obtain funds for acquisitions. It said SchmidtBank, based in Hof, Bavaria, had agreed to buy Metallbank, which has total assets of DM1.25bn (\$832m).

Metallbank, which made a DM26m pre-tax profit last year, will keep its name and remain active in its specialised fields which include foreign consortium business using soft loans and export guarantee funds, corporate loans and securities and foreign exchange trading. The price of the purchase was not disclosed.

Andrew Fisher, Frankfurt

UAP in revenue fall

UAP, the French insurance group, said insurance revenues were FF114.1bn (\$22.4bn) in the nine months to September, a decline of 0.5 per cent from the same period a year earlier. The fall was due to the sale of SCOR and UAP's German units UAP Allgemaine and UAP Leben. On a comparable structure basis, revenues were up 3.9 per cent. UAP said. Life insurance revenues were up 4.5 per cent at FF52.8bn while non-life insurance revenues fell 4.4 per cent to FF61.2bn.

AFX News, Paris

GTM-Entrepose sales ahead

GTM-Entrepose, the French diversified industrial group, reported an increase in sales to FF29.41bn (\$5.79bn) in the nine months to September from FF26.22bn a year earlier. The company said the 1996 sales figure included 50 per cent of a consolidated turnover for the first two quarters of Groupe Dumez-GTM, acquired on June 30 1995. On a constant structure basis, GTM-Entrepose's sales were up by 1.5 per cent, with a pro forma nine-month turnover in 1995 at FF28.973bn.

AFX News, Paris

Preussag shares fall 3%

Shares in German industrial group Preussag fell more than 3 per cent yesterday after the company said profits for the business year ending September 30 fell sharply from the previous year. Mr Michael Frenzel, chairman, said full-year results would correspond to the development in the first half, when profits plunged 30 per cent. Mr Frenzel said group sales in 1996 slipped to DM25.1bn (\$16.7bn) from DM35.3bn. But he said shareholders would still be offered an "attractive" dividend.

Reuters, Frankfurt

Viag upbeat on profits

Viag subsidiary SKW Trostberg said it expected group net profit to climb from DM120m to DM145m (\$36.4m) in 1996. Sales of the chemical group were expected to rise to around DM3.9bn from DM3.875bn, SKW Trostberg said. Despite the investment of a number of marginal activities, sales rose 4 per cent to DM2.97bn in the first nine months and operating earnings were stable.

AFX News, Trostberg

Pechiney advances

Pechiney, the French packaging group, posted consolidated sales of FF18.703bn (\$3.63bn) for the first nine months of 1996, up 3.54 per cent from FF18.065bn a year earlier, based on a new structure.

AFX News, Paris

Mr Mario Sarcinelli, chairman of Banca Nazionale del Lavoro, said that if the joint bid by BNL and Istituto Nazionale Assicurazioni for a 60 per cent stake in Banco di Napoli succeeded, INA would become the bank's main shareholder. He said the BNL-INA consortium was open to other parties.

AFX News, Milan

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

Nestlé upbeat despite slowdown

By Roderick Oram,
Consumer Industries Editor



Helmut Maucher: Nestlé on track for net profits of SKr3bn

Nestlé, the world's biggest food company, said yesterday that poor summer weather in Europe had prompted a second-half slowdown in its sales growth, but it remained confident of lifting net profits and sales in the year to December.

Despite a 12 per cent sales rise in October, the summer setback in mineral water and ice cream left group sales for the first 10 months up only 5.7 per cent at SFr48.3bn (\$38bn). Weak economies in Europe, Brazil and Mexico were also negative factors.

Of the sales growth, 1.5 percentage points came from

higher prices; 0.6 points from net acquisitions; 0.6 points from favourable currency factors and 3 percentage points from volume growth, down from 3.6 per cent in the first half.

The group was on track for full-year sales of around SFr60bn, up some 6.2 per cent from a year earlier, and net profits of more than SFr3bn, said Mr Helmut Maucher, chairman.

The year-to-date performance was in line with analysts' forecasts. Most are expecting net profits to rise about 11 per cent to SFr3.25bn - equal to Nestlé's previous peak in 1994 on sales of SFr60bn. The shares closed down SFr12 at SFr141.

"At the macro level, this was fine," said Mr John Campbell, a London-based analyst with Paribas, the French bank. But over the rest of the year, he would be watching factors such as soluble coffee prices.

Nestlé's disappointing ice cream performance mirrored that of Unilever, the European market leader. Analysts estimate that Unilever's third-quarter profits from ice cream fell roughly 60 per cent to around SFr0m (\$115.5m).

Overall, Nestlé's European sales rose 5.1 per cent in the first 10 months to SFr22.4bn. Within that, volumes were up 2.7 per cent, or 2 per cent excluding fast growth in eastern Europe.

Emerging markets were the star for Nestlé, as they were for Unilever. The strongest region comprised Asia, Oceania and Africa, with sales up 8 per cent to SFr9.3bn.

Beverages were the weakest product area with sales up only 1.1 per cent to SFr13bn. Nestlé said that soluble coffee showed "encouraging growth", due in part to falling bean prices and retooling by retailers.

By contrast, mineral waters underperformed, analysts judged. Prices were stable across Europe but under pressure in France. However, falling packaging costs should help maintain mineral water profits, they added.

Bank IG wants to lift Gdanski stake

By Christopher Bobinski
in Warsaw

Bank IG, the small listed Polish bank which last year salvaged the government's privatisation of Bank Gdanski by taking a strategic stake in it, has confirmed it wants to increase its present 31 per cent holding by at least 10 percentage points.

The country's central bank, the National Bank of Poland, has already given Bel Leasing, a Bank IG subsidiary, permission to increase its 9.5 per cent stake in Bank Gdanski to

"between 10 and 20 per cent".

The permission was given after the finance ministry was told by HSEC, which originally handled the sale, that it was free to dispose of the treasury's residual 39 per cent stake, worth about \$100m at current prices.

Originally the government said it would hold its stock for 12 months after the initial public offer closed on December 18 last year.

Bank Gdanski is Poland's only listed bank to have part of its stock held by shareholders abroad in the form

of Global Depository Receipts (GDRs). The GDRs amount to 18.5 per cent of the bank's stock.

Bank Gdanski shares are currently trading at 40 zlotys each on the Warsaw Stock Exchange, which represents a 66 per cent increase on the initial public offer price last December and gives the bank a price earnings ratio of 10.3.

The bank's net profits stand at 8m zlotys after 10 months, a 9 per cent decline on a year ago.

Bank Gdanski has decided to sell its 40 per cent

stake in Hevellus, a company which is managing one of 15 investment funds set up in Poland as part of the country's mass privatisation programme.

The funds, which are to be floated on the Warsaw Stock Exchange in the first half of next year, own strategic stakes in 512 local companies. Bank Gdanski's decision to withdraw from Hevellus follows disagreements with two foreign managers of the funds, UNP, a small Canadian venture fund, and Murray Johnstone, the Glasgow-based fund manager.

Successful debut for Belgian bank

By Neil Buckley in Brussels

Crédit Communal de Belgique, the Belgian bank which is allying with Crédit Local de France, made a successful debut on the Brussels bourse yesterday, closing at a 4.7 per cent premium to its offer price in Belgium's biggest initial public offering.

The Belgian bank, previously owned entirely by local authorities, is merging operations with the specialist French lender to form a new group, Dexia, capable of operating in public sector finance internationally. The Belgian shares are trading on the Brussels bourse as Dexia Belgium. The agreement with the French bank - already quoted on the Paris bourse - involved the flotation of about one-third of Crédit Communal.

The offer, launched on November 5, was almost five times subscribed, triggering the release of the maximum 12.66m shares - 34.5 per cent of the Belgian bank's equity - of which 1.85m shares were pre-placed with SMAP, the municipally owned insurance group.

The offer price of BFr2.875 a share, set before the market opened yesterday, valued

the total offer at BFr33.86bn (\$1.1bn), but the shares opened at BFr2.775 and ended the day at BFr2.900.

The offer price was at the maximum indicated when the offer opened.

Shares in Crédit Local on the Paris bourse gained FF9.50 to close at FF496 - equivalent to BFr2.717. Proceeds from the flotation will help reduce local authority debt as part of Belgium's efforts to meet criteria for European monetary union.

The flotation is only the second time a formerly state-owned company has achieved a listing on the Brussels bourse, following the privatisation of Distrigaz, the gas distribution monopoly, in May.

Mr François Narmon, Crédit Communal chairman, and the Brussels bourse hailed the offer as an important step in establishing a shareholder culture in Belgium, with 125,000 small investors applying for shares.

Previous partial privatisations have involved three parties taking direct stakes, such as last year's acquisition of 49.5 per cent of Sabena, the national airline, by Swissair.

Acquisitions aid advance at CSM

By Gordon Cramb
in Amsterdam

CSM, the Dutch foods manufacturer, increased net profits 5.1 per cent to Fl 201.6m (\$119.5m) in the year to September, aided by North American acquisitions in its ingredients division.

Sales at Fl 3.02bn were 11.2 per cent higher overall as the ingredients side produced revenues up 32.4 per cent to Fl 1.15bn. Turnover from food brands rose 3.8 per cent to Fl 1.28bn while sugar sales dipped 3.2 per cent to

Fl 604m. The company said, however, that operating profits from each of the units had shown a slight increase.

During the year CSM added businesses worth some Fl 253m in annual sales and reached a deal with Carigil of the US to build a joint plant to produce lactic acid. In June it also agreed the takeover of Malaco, a Swedish sweets maker with sales of some Fl 215m, in a deal due to be concluded shortly.

The company also said yesterday that Dr J. Vink,

currently vice-chairman, would succeed Mr G. van Loon as chairman next April. Dr Vink, who joined the board in April 1995, previously headed the fast-growing ingredients division. Mr van Loon's tenure was marked by a wrangle with the Amsterdam Stock Exchange over the extent of CSM's defences against a hostile takeover.

ING, the Netherlands-based financial services group, hopes to receive a Canadian federal licence in the next few days to start a

trust company for direct marketing of services in Canada, said Mr Aad Jacobs, executive board chairman. He said this would be a pilot project for similar initiatives in the US and other countries with mature financial services markets.

"This new company, ING Direct, will offer a limited range of savings and loans products through direct marketing, starting next year," Mr Jacobs said. He said ING had earmarked an initial investment of \$350m to start ING Direct.

GT US SMALL COMPANIES FUND SICAV

69, route d'Esch, L-1470 Luxembourg
R.C. Luxembourg B-25176

NOTICE OF MEETING

Notice is hereby given that the quorum required by law was not reached at the extraordinary general meeting of the Fund held on October 30, 1996 and that a second extraordinary general meeting will be held at the offices of Banque Internationale à Luxembourg, 69, route d'Esch, L-1470 Luxembourg on December 5, 1996 at 3.30 pm to consider and, if thought fit, pass the same resolutions as for the meeting held on October 30, 1996.

RESOLUTION

- The Meeting hereby sanctions the modifications, alterations or additions to the provisions of the Articles of Association and the replacement of the Articles by a new set of revised articles in the terms of the draft submitted to this Meeting and later also:
- To amend the objects clause of the Fund so as to read as follows: "The exclusive object of the Company is to place the funds available to it in transferable securities of all types with the purpose of spreading investment risks and affording its shareholders the results of the management of its portfolio.
- The Company may take any measures and carry out any operation which it may deem useful in the accomplishment and development of its purpose to the full extent permitted by the Luxembourg law of 30th March 1983 regarding collective investment undertakings.
- To create different classes of shares and to define the respective rights of these classes.
- To enable the board of directors to decide to liquidate a class of shares under certain circumstances.
- To redefine the conditions of transfer of registered shares.
- To clarify the right of joint shareholders to payments from the Fund.
- To enable the Fund to impose restrictions for the purpose of ensuring that no shares in the Fund be held by certain persons and to define the meaning of "US persons".
- To give power to the directors to determine the investment restrictions applicable to the investments of the Fund.
- To establish new redemption and conversion conditions and procedures.
- To redefine the circumstances in which the Fund may suspend or to postpone the determination of net asset values.
- To restate the method of calculation of the net asset value of the shares of each class.
- To authorize the board of directors to accept requests for subscription in kind.
- To complete provisions relating to the conditions and procedures for the payment of dividends.

A complete version of the revised Articles is available at the registered office of the Fund.

No quorum of presence is required for this meeting. To be passed a resolution must be carried by a majority consisting of 2/3 or more of the total number of votes cast at the meeting.

In order to list part at the meeting of December 6, 1996, the owners of bearer shares, will have to deposit their shares five clear days before the meeting with registered office of the Company or with Banque Internationale à Luxembourg, 69, route d'Esch, L-1470 Luxembourg.

The Board of Directors

NINE MONTH INTERIM REPORT 1996:

**Concentrating on new investments
within a reinforced organization**

"To be able to give our shareholders a high and competitive return is a constant challenge for Investor. In order to succeed in doing so, we must - at the same time as we are involved with our present main holdings - discover at an early stage tomorrow's companies of the future" says Claes Dahlbäck, President of Investor AB, in his comments on the report.

"With the help of an established network and an effective organization for qualified analysis, we will make new investments to provide for solid future returns. Areas that we are particularly looking at are healthcare, information technology, media, service and the financial sector."

"Our organization is in the process of being strengthened through new staff appointments at our investment offices in Hong Kong, New York, London and Stockholm. We need still more professional people in order to be able to compete with the best investors around the world."

- Investor's total annual return for the 12-month period ended September 30, 1996, amounted to 23 percent.
- Following the close of the period, Investor has decided to sell its entire holding of shares in Orrefors Kosta Boda in a newly formed consortium that has made a public bid for all the latter company's shares.
- The value of Investor's main holdings on September 30, 1996, was SEK 53,121 m. On November 13, the value was SEK 54,144 m. Scania has been included among Investor's main holdings since April 1. Excluding Scania, the increase in value of the main holdings amounted to 15 percent during the period.
- Investor's net worth as of September 30, 1996, was SEK 73,202 m., or SEK 366 per share. The net worth on November 13, 1996, was SEK 74,114 m., or SEK 371 per share.

The complete report can be ordered from Investor's offices.

INVESTOR AB

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CP 1/11/96

Cable and Wireless plc interim report

Financial results for the six months ended 30 September 1996

FINANCIAL HIGHLIGHTS

Turnover of the company and its subsidiaries	£2,942m	+9%
Turnover - including share of associates	£3,401m	+14%
Operating profit	£746m	+17%
Pre-tax profit excluding exceptional items	£673m	+9%
Earnings per share excluding exceptional items	14.3p	+10%
Interim dividend per share	3.4p	+10%

Chief Executive's statement

We have delivered a strong competitive performance during the first half and I remain confident about the outlook.

We achieved impressive headline growth with turnover ahead by 14% demonstrating the strength of demand for our services and the continued development of our start up operations. Efficiency continued to improve with operating margins at 25% compared with 23% and cash flow from operations exceeded £1 billion, an increase of £229 million.

Earnings per share improved 10% and the interim dividend is 3.4 pence, an increase of 10%.

We continue to realise value from our investments and included in these results is an exceptional profit of £61 million arising on the flotation and part disposal of AsiaSat.

Our recent moves to realign our position in the fast growing German market and the proposals to create an integrated telecommunications, information and entertainment services company in the UK will substantially strengthen Cable & Wireless for the future.

Richard H. Brown

Group profit and loss account

for the 6 months ended 30 September

Year ended		1996	1995
31 March		£m	£m
1996			
	£m		
6,172	Turnover	3,401	2,994
655	Less: share of turnover of associated undertakings	459	283
5,517	Turnover of the company and its subsidiary undertakings	2,942	2,711
4,206	Operating costs	2,196	2,075
1,311	Operating profit	746	636
	Exceptional items:		
(34)	Profits less (losses) on sale or termination of operations	-	-
199	Profit on disposal of fixed assets	61	199
	Associated undertakings:		
(24)	Share of profits less (losses)	(40)	(3)
(86)	Exceptional items	-	-
(25)	Net interest and other similar income	(33)	(17)
1,341	Profit on ordinary activities before taxation	734	815
320	Tax on profit on ordinary activities	153	190
1,021	Profit on ordinary activities after taxation	581	625
414	Minority interests	223	194
607	Profit attributable to shareholders	358	431
	Pence	Pence	Pence
27.5	Earnings per share	16.1	19.6
26.4	Earnings per share excluding exceptional items	14.3	13.0
10.0	Dividends per share	3.4	3.08
1.57	Average exchange rate US\$:£1	1.53	1.59

Group balance sheet

at 30 September

31 March		1996	1995
1996		£m	£m
	£m		
5,338	Fixed assets	5,376	5,085
1,287	Tangible assets	1,275	882
6,625	Investments	6,651	5,967
	Current assets		
87	Stocks	97	117
1,013	Debtors - due within one year	1,184	1,266
254	- due after more than one year	246	241
1,041	Deposits and cash	1,328	1,065
2,395		2,855	2,689
	Creditors: amounts falling due within one year		
419	Loans and obligations under finance leases	497	552
1,838	Other creditors	1,985	1,512
138	Net current assets	373	625
6,763	Total assets less current liabilities	7,024	6,592
	Creditors: amounts falling due after more than one year		
1,689	Loans and obligations under finance leases	1,675	1,330
150	Other creditors	19	32
205	Provisions for liabilities and charges	219	190
4,719	Net assets	5,111	5,040
	Capital and reserves		
555	Called up share capital	559	552
429	Share premium account	458	419
(128)	Associated undertakings	(196)	(87)
2,403	Profit and loss account	2,700	2,875
3,259	Equity shareholders' funds	3,521	3,759
1,460	Equity minority interests	1,590	1,281
4,719		5,111	5,040
1.53	Closing rate of exchange US\$:£1	1.56	1.58

Group cash flow statement

for the 6 months ended 30 September

Year ended		1996	1995
31 March		£m	£m
1996			
	£m		
1,867	Net cash inflow from operating activities	1,025	796
	Returns on investments and servicing of finance		
(143)	Interest paid	(61)	(25)
83	Interest received	33	4
(8)	Interest element of finance lease rental payments	(2)	(3)
(185)	Dividends paid to shareholders	(148)	(127)
(252)	Dividends paid to minorities	(147)	(138)
28	Dividends received from investments	9	11
(477)		(316)	(278)
	Taxation		
(49)	UK corporation tax paid	(14)	(18)
(202)	Overseas tax paid	(57)	(35)
(251)		(71)	(53)
	Investing activities		
(1,002)	Purchase of tangible fixed assets	(401)	(463)
5	Capital element of finance lease rentals received	1	3
(943)	Purchase of investments	(180)	(219)
(5)	Purchase of shareholdings in subsidiary undertakings	(2)	-
21	Sale of tangible fixed assets	33	15
57	Sale of subsidiary undertakings	30	-
240	Sale of investments	73	8
(69)	(Increase)/decrease in short term deposits (more than three months to maturity when acquired)	85	198
(1,696)	Net cash outflow from investing activities	(361)	(458)
(557)	Net cash inflow/(outflow) before financing	277	7
	Financing		
	Issue of ordinary share capital		
(37)	- parent	(20)	(15)
(53)	- to minorities in subsidiary undertakings	(7)	(11)
(197)	Issue of Eurobonds	-	-
(439)	Other long term debt issued	(142)	(61)
167	Long term debt repaid	69	127
19	Capital element of finance lease rental repayments	3	5
(540)	Net cash (inflow)/outflow from financing	(97)	45
(17)	Increase/(decrease) in cash and cash equivalents	374	(38)
(557)		277	7

Commentary on results

Turnover of the company and its subsidiaries at £2,942 million was 9% higher than the comparable period last year. The growth arose mainly in Hong Kong, North America and the Caribbean. Cable & Wireless has disclosed turnover including its share of the turnover of its associates for the first time this period. Turnover including share of associates at £3,401 million was 14% higher than the comparable period last year. The growth in associates' turnover in the period was 62% demonstrating the rapid development of Cable & Wireless's start up operations.

Operating profit at £746 million was 17% higher than the comparable period last year. Cable & Wireless is exposed to movements in exchange rates. It is estimated that had last year's average rates of exchange applied in this period's reported currency results, the operating profit would have been some £18 million lower than that now reported. The translation difference arises primarily from the movement in the rates of exchange between sterling and the Hong Kong dollar.

Pre-tax profit before exceptional items increased by 9% over the comparable period last year to £673 million. The lower percentage rise in pre-tax profit compared with operating profit arises from increased losses in associated undertakings primarily as a result of including Vebacom losses which were not included in the comparable period last year. Had Vebacom losses not been included in this half year then pre-tax profit before exceptional items would have increased by 16%.

Pre-tax profit at £734 million includes the £61 million exceptional profit discussed below. The exceptional item of £61 million related to the disposal of a 10% share in AsiaSat as part of the flotation of the company on the New York and Hong Kong stock exchanges which demonstrates our continued ability to realise value from our investments. A £21 million tax charge arises on the disposal. The exceptional item in the comparable period last year of £199 million related to the disposal of the 5% holding in Mannesmann Mobilfunk.

Dividend. The directors have declared an interim dividend of 3.4 pence (1995 - 3.08 pence) per ordinary share. The dividend will be paid on 28 February 1997 to shareholders on the register at 10 December 1996 (the Record Date). The cost of the interim dividend is £76 million (1995 - £68 million). Shareholders with an existing scrip dividend mandate will automatically receive new shares in lieu of cash dividend. Scrip dividend mandate forms and various notices should be sent to the company's registrars for receipt no later than 16 January 1997. The registrars (The Royal Bank of Scotland plc in Bristol, telephone 0117 930 6666) will supply scrip dividend mandate forms and copies of the full terms and conditions of the scrip dividend scheme on request. The scrip dividend share value will be calculated on the basis of the average of the middle market quotations of the ordinary shares on the London Stock Exchange for the five dealing days commencing on 2 December 1996. Shareholders who hold their existing shares in certificated form on the Record Date will be posted share certificates for their new shares. Shareholders who hold their existing shares in uncertificated form on the Record Date will be allocated and issued their new shares as uncertificated shares on 28 February 1997 unless the Company is unable to do so under the provisions of the Uncertificated Securities Regulations 1995 or under the facilities and requirements of CREST, in which case the shares will be issued as certificated shares and share certificates posted as above. For legal reasons, shareholders resident in the United States may not participate in the scrip dividend scheme.

If you have any enquiries as a UK shareholder, please call the Company Secretary on 0171-315 6767. US shareholders should call Citibank, N.A. on 1-800-422-2066.

Post balance sheet events

On 9 October 1996 Cable & Wireless announced that RWE was joining its German alliance. The network and services operations of Vebacom (45% owned by Cable & Wireless) and RWECOM will be combined into two new companies: a services company to be owned 51% by Vebacom and 49% by RWECOM; and a network company to be owned 49% by Vebacom and 51% by RWECOM. RWE is expected to contribute net cash of DM2.5 billion and the existing assets of RWECOM to the venture.

On 22 October 1996 Cable & Wireless announced that it had reached agreement to create one of the UK's leading providers of integrated telecommunications, information and entertainment services by creating Cable and Wireless Communications from a merger of the operations of the Mercury Group, Nynex CableComms Group, Bell Cablemedia and Videotron Holdings. Immediately after completion of the transactions, and assuming full acceptance of the offer, Cable & Wireless will own 52.6% of the fully diluted share capital of Cable and Wireless Communications. It is intended to make arrangements so that Cable and Wireless Communications is listed on the London Stock Exchange and in the USA.

Notes

- The interim financial statements are prepared in accordance with applicable accounting standards. The policies applied are those set out in the Annual Report and Accounts for the year ended 31 March 1996. The interim financial statements are unaudited and do not constitute statutory accounts but have been reviewed by the auditors.
- The interim statement for the 6 months ended 30 September 1996 was approved by the directors on 19 November 1996.
- The group profit and loss account and group balance sheet and group cash flow statement for the year ended 31 March 1996 are extracts from the statutory accounts for the year which have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified.
- Copies of the interim report are available from the company's registered office at 124 Theobalds Road, London, WC1X 8RX. For further information call 0171 315 4476 or visit our worldwide web on www.cwplc.com



CABLE & WIRELESS

Cable and Wireless plc, 124 Theobalds Road, London WC1X 8RX, www.cwplc.com

COMPANIES AND FINANCE: INTERNATIONAL

Global competitiveness observed from an unfamiliar angle

New Morgan Stanley study tackles the issue from the viewpoint of the analyst, rather than the economist, writes Tony Jackson

The competitive advantage of nations is a topic dear to the heart of economists. Year by year, bodies such as the World Economic Forum rank countries by their competitiveness. The listings contain the usual suspects: the US, naturally, and - in varying order - Singapore, Hong Kong, Switzerland and so forth.

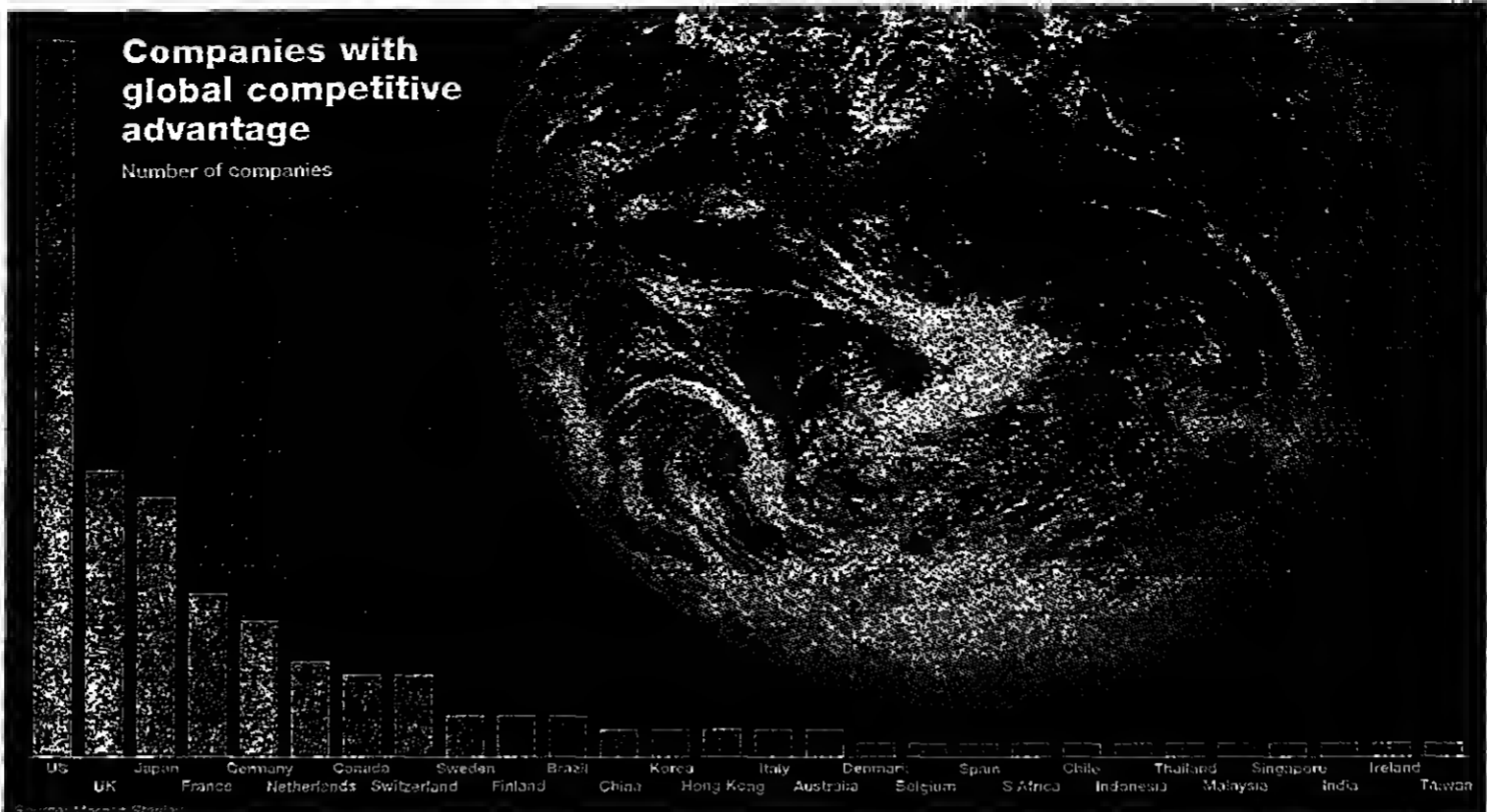
There is a snag to this. Countries do not compete for business, companies do. And while a company's origin obviously has some bearing on its effectiveness, most of the world's leading corporations are now transnational. One answer is to look at the problem not top down, as an economist, but bottom up, as an industry analyst. This is the approach of a study from the US investment bank Morgan Stanley.

19, Germany fourth with only 10. Singapore, Hong Kong and Taiwan are nowhere.

There is arguably a bias here. The study is aimed at Morgan Stanley's investment clients. It therefore looks only at quoted companies, mostly large and easily traded. The UK economy, like that of the US, is unusually reliant on big quoted companies.

According to Mr Richard Davidson, of Morgan Stanley's London office, there is more to it than that. "On a macro and micro basis", he says, "we think the UK has a fairly bright future. The macro reforms of the past 15 years have made it one of the most competitive countries in the world."

More so than Japan? Well, Mr Davidson says, the Japanese findings came as a surprise. "The gap has opened up because around the world, the advantages which the Japanese had in the mid-1980s, like just-in-time management, are now owned by everybody."



The study's methodology can be summed up by looking at the car industry. Only three carmakers make the list: BMW, Toyota and Honda. The Americans, for once, do not qualify. In accordance with the teaching of Professor Mich-

ael Porter of Harvard, Morgan Stanley's analysts argue that competitiveness comes down to either of two things: differentiation, or low-cost production. BMW has the first, the Japanese the second. The Americans have neither. Nor, as a corollary,

do they practise true globalisation, merely "localisation across markets." Among UK companies thrown up by this approach, some are unsurprising: Glaxo Wellcome, British Airways, Unilever, Reuter and RTZ. Others are less obvi-

ous: Spirax Sarco, for instance, or Bess. Spirax Sarco, an engineering company which makes steam controls, is there because it has a world market share of 30 per cent, half again as big as its nearest competitor. This advantage

is reckoned to be sustainable - a key aspect of the study - for 10-20 years: that is, it would take that long for a new entrant to overtake it. Bess is included not because it is the UK's biggest brewer, but because its Holiday Inn chain is the

world's biggest hotel operator by number of properties. It is global in reach; and Bess, the study says, has the financial muscle to push that forward.

If the UK ranks high collectively, individual companies may find the study less encouraging.

ICI does not qualify, though its erstwhile daughter company Zeneca does. British Steel, once claimed as the world's most profitable steel company, does not make it into a list of eight steel makers from such as China, Korea and India. Among technology companies, GEC does not qualify, though General Electric of the US does. Nor do British Aerospace or Rolls-Royce, or any of the British banks.

Worldwide, less familiar names in the lists include AES Corp, Kurita Water, Coas Mills and Nan Ya Plastics. They are, respectively: a US power plant operator; a Japanese maker of ultra-pure water systems for the semiconductor industry; a US denim maker; and a Taiwan polyester producer.

As a means of describing whole economies, the Morgan Stanley approach is obviously rough and ready. Its great advantage is to approach the issue from an unfamiliar angle. If not a substitute for the top-down method, it is at least a useful addition.

Continental surges 62% to DM125m

By Sarah Althaus in Frankfurt

Continental, the German tyre company, continued its strong first-half trend with a 62 per cent rise in pre-tax profits, from DM77m to DM125m (\$83m) for the first nine months.

The group said yesterday that it had exceeded budget plans for the period and that, without extraordinary charges related to the closure of a plant in Ireland, profits would have been as high as DM205m.

It said that, assuming the winter tyre season continued

favourably, it expected fourth-quarter profits to match strong previous year levels.

Results exceeded market expectations and the shares gained 98 pfennigs, or almost 4 per cent, to DM26.28.

Turnover rose 2.6 per cent, from DM7.44bn to DM7.63bn. The group said, that, taking restructuring costs into account, it expected to come quite close this year to its medium-term goal of a continued net margin on sales of 2.5 per cent.

Last year's margin was 1.5 per cent, compared with 0.7 per cent in 1994.

The world's fourth largest tyre maker said that all divisions performed well in spite of difficult economic conditions. Cost-cutting and slightly lower raw material costs helped offset a fall in volumes.

The passenger vehicle tyre business increased profits, supported by a sharp reduction in losses in the highly competitive original equipment sector.

Turnover rose 2.3 per cent, helped by increased sales of its Barum, Mahor and premium Continental brands.

The commercial tyres division reduced losses but sales

dropped 7.1 per cent, hit by an unexpected downturn in demand for truck tyres and a slump in the replacement business.

Restructuring measures helped General Tire, its US unit, improve nine-month earnings, although turnover dropped from DM1.57bn to DM1.53bn.

ContiTech, the technical products arm, posted sharply higher profits as sales climbed 5.8 per cent.

Continental said it was continuing with its drive to cut costs and move production to lower-cost sites in the Czech Republic and Portu-

gal. The group said it was going ahead with its plans to shift half of the production at its Traiskirchen plant in Austria to the Czech Republic.

The move, which is expected to result in the loss of 1,100 of the plant's 2,300 employees, was initially delayed by a controversy in Austria about employment practices by foreign investors, especially German companies.

The Traiskirchen region is economically depressed and offers little alternative employment possibilities to redundant workers.

Axa's worldwide sales nudge FFr120bn after 22.7% rise

Axa, the French insurer, said it posted consolidated sales of FFr119.98bn (\$23.66bn) in the first nine months of 1996, up 22.7 per cent from FFr97.79bn the previous year, AFP News reports from Paris.

The group said its life assurance sales in the first nine months of 1996 had risen 38.5 per cent to FFr64.3bn.

Sales in Europe increased 19.1 per cent to FFr23.17bn, while those in France rose 21 per cent to FFr12.5bn. Sales

in the UK were up 7 per cent at FFr6.2bn.

Sales in North America were FFr28.29bn, up 82 per cent, while sales in Asia Pacific were worth FFr12.96bn. The higher figures in this area followed the integration of National Mutual last year.

Of the Asia Pacific total, Axa Life in Japan contributed FFr81m, Axa Life in Singapore FFr194m, Dongbu Axa in South Korea FFr456m, National Mutual of Australia and New Zealand

FFr9.79bn, and National Mutual Asia of Hong Kong FFr2.44bn. The company said non-life insurance sales rose 2.4 per cent to FFr22.23bn. In Europe, they were up 11.3 per cent at FFr32.37bn.

Sales in France were up 3 per cent at FFr12.3bn. Non-life sales in North America were up 5.5 per cent at FFr31.11bn.

In Asia Pacific, the sales figure was FFr13.16bn. This was an increase of FFr20m on the previous year.

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FT Conference, London, 12 & 13 December 1996

Conference Theme

In the last year pulp and paper prices have been spectacularly volatile, causing tremendous problems for both producers and consumers. Is the establishment of a futures market in pulp and paper a solution - or will it add to the uncertainty and risk? The fifteenth FT World Pulp and Paper conference will provide a forum in which experts from the industry will analyse this and other tough questions, and provide up-to-the minute information about price movements, supply, and demand. At this dramatic time in the industry, no-one involved can afford to miss this chance to examine the issues with key decision-makers from around the world. Following the enormous popularity of last year's conference, early booking is recommended.

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- ◆ The boom-bust cycle: A Paper Industry View, A Paper Buyer's View. Is a Futures Market the Answer?
- ◆ A Global Review of Supply and Demand
- ◆ The Future of the Indonesian Paper Industry
- ◆ Selling and Distributing Fine Paper to a Fragmenting Market
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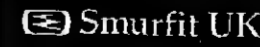


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COMPANIES AND FINANCE: THE AMERICAS

RBC to spend C\$500m on consumer banking

By George Graham, Banking Correspondent

Royal Bank of Canada plans to spend more than C\$500m (US\$378m) on its consumer banking division in an attempt to "build the bank of the future".

Mr John Cleghorn, RBC chairman and chief executive, said yesterday the bank would invest C\$325m in new technology and a facelift for its branch network, and spend an additional C\$175m on training for its 55,000 employees.

"A lot of profitable client relationships use the branch. We've found in the past that rapid branch closures lose you market share, guaranteed," he said in an interview. "You can make a big mistake thinking everybody wants to deal with you on a PC - but you also have to cater for the client who wants to use the PC."

RBC has increased its efforts to develop online banking, joining the Intergration home-banking network set up by IBM and 15 North American banks.

The bank is also enthusiastically promoting in Canada the Mondex smart card, which can be used as an "electronic purse" and to make transfers over the telephone. "For somebody that wants to do PC transactions from home, the missing link is cash, and now you've got that with Mondex," he said.

RBC has also expanded telephone banking, with 870,000 customers now paying a fee for its Royal Direct phone banking service. Mr Cleghorn said phone banking was expected to be in profit in two to three years.



John Cleghorn: branch network not a liability

Canada's banking industry faces considerable changes as the country is about to embark on a review of its banking legislation.

The debate has so far revolved around peripheral issues such as whether banks should be allowed to sell insurance through their branches or enter the car leasing market.

But Mr Cleghorn said his biggest fear was that regulators would be unable to keep up with the pace of change in the financial services sector. "I hope that regulators will be able to adjust the playing field so that you are

not overly fettered by past regulations," he said.

Mr Cleghorn has also been urging the government to ease restrictions on mergers between Canada's largest banks. Although some consolidation had already taken place in the back office, with joint ventures to perform functions such as document processing, size was becoming increasingly important, in wholesale and retail banking, he said.

The bank has ruled out acquisitions of US retail banks because prices are too high to produce an adequate return.

AMERICAS NEWS DIGEST

Canadian switch maker at record

Newbridge Networks, the fast-growing Canadian maker of high-speed telecommunications switches and software, broke profit and revenue records in the second quarter, with a 36 per cent advance in earnings, although the results were slightly below analysts' forecasts.

Newbridge shares, in line with their reputation for volatility, fell in early trading in Toronto yesterday, but had gained C\$1.36 to C\$45.75 by midday.

The Ottawa-based company posted earnings of C\$62.8m (US\$46.6m), or 37 cents a share (based on Canadian accounting principles) in the three months to October 27, up from C\$45.4m, or 27 cents, a year earlier.

Based on US accounting principles, earnings per share climbed from 20 US cents to 26 US cents. Sales rose from C\$217.1m to C\$316.1m.

Newbridge has about a third of the world market for time-division multiplexers, a core component in most telecom switches. It is also a leading supplier of more sophisticated ATM (or asynchronous transfer mode) and frame-relay switches.

Newbridge set up a partnership earlier this year with Siemens, the German electrical and electronics group, to develop a new generation of ATM switches.

Cash reserves totalled C\$481.6m at the end of October, up from C\$455.7m at the start of the fiscal year. Long-term debt is negligible.

CNA Financial in \$2bn deal

CNA Financial has signed what is thought to be the biggest information technology outsourcing deal yet in the US insurance industry, handing control of a large part of its central IT activities to Computer Sciences.

The deal, which the two companies said would be worth \$2bn over the next 10 years, will leave responsibility for technical development which is considered strategically important with the insurer, Computer Sciences said.

Under a separate arrangement, CNA will also transfer the administration and processing work for its 1m life insurance policies into a new joint venture company it has set up with Computer Sciences, which already handles similar work for 23 other insurers.

The move reflects the growing cost pressures on US life companies, which are undergoing a round of mergers to make themselves more competitive.

The life insurers have failed to reduce their unit costs at a time when the lower cost mutual fund industry has emerged as a strong competitor, said Mr Scott Hyten, a Computer Sciences senior vice-president.

Setback for Norfolk Southern

Norfolk Southern, one of the biggest US railroads, lost a round in its fight to stop a merger between the rival CSX and Conrail when a federal judge in Philadelphia refused to grant an injunction blocking the \$8.6bn agreed deal. The judge said he found no evidence that Conrail directors had violated their fiduciary duty in preferring the CSX bid over Norfolk Southern's.

CSX has made a two-tier offer of \$96.50 for each Conrail share, 40 per cent of it in cash up front. The balance is to be paid in CSX stock if and when the deal is cleared by the regulatory authorities.

But Norfolk Southern has made a higher, all-cash bid of \$110 a share, valuing Conrail at \$10bn. In addition, Norfolk Southern is offering to buy Conrail's stock now and put it in a trust pending regulatory approval.

The Philadelphia judge said Conrail did not have to opt simply for the best short-range price or profit for shareholders when considering which offer to accept, and rejected suggestions that shareholders had been misled by Conrail or CSX.

But Norfolk Southern immediately appealed: and meanwhile, Conrail may have to sweeten its offer significantly if it is to win shareholder approval.

Ukraine Enterprise IPO falling far short of target

By Bernard Simon in Toronto

A Canadian company planning investments in Ukraine has sharply curtailed an initial public offering after the collapse of an alleged deal with Morgan Grenfell Asset Management, the troubled UK fund manager.

Ukraine Enterprise Corporation, listed on the Alberta Stock Exchange, has so far raised only C\$8.6m (US\$6.4m), compared with its original target of C\$44m.

UEC alleged that Mr Peter Young, the MGAM fund manager dismissed recently after irregularities in three funds that he managed, agreed to invest C\$20m in its IPO. It alleged MGAM's compliance department also approved the deal.

MGAM, a unit of Deutsche Morgan Grenfell, has denied there was any firm or binding commitment to invest the money. UEC dealt with Mr Young partly through Fiba Nordic Securities, a London-based

stockbroker, which described its role as "a facilitator on behalf of MGAM". UEC says it does not have the resources to pursue the dispute.

Much of the equity raised so far has come from members of the Ukrainian community in Canada, mostly based in Alberta and other western provinces. In addition, the Canadian government has agreed to provide a C\$10m interest-free loan.

Mr Chuck Loewen, UEC president, is visiting institutional investors in New York and London this week in an effort to expand the company's equity base. The offering is due to close on November 23.

Funds raised so far are expected to be sufficient for UEC to proceed with the purchase of a 60 per cent stake in a joint venture to extract coal from waste at Ukrainian coal mines. UEC said waste mounds at the mines contained sizeable quantities of usable anthracite.

UEC has also signed conditional agreements for five

other investments in Ukraine in the plastics, confectionery, meat packaging, canning and banking sectors. They include a 35 per cent stake in Lvov-based Elektron Bank, set up in 1992 by a local television and electronic equipment maker.

However, the future of these investments hinges on UEC's ability to raise more equity in coming weeks.

Mexico eases move to GAAP

By Leslie Crawford in Mexico City

Mexican banking authorities are planning a soft landing for commercial banks in the switch from Mexican to stricter US Generally Accepted Accounting Practices (US GAAP), which will take place in January.

The new rules are expected to bring about a large increase in loans which banks must report as past-due, forcing them to set aside considerable sums as provision against bad debts. The authorities and banks, worried about the impact of a sudden jump in past-due, or non-performing, loans on Mexico's already-strained financial system, are therefore considering a "transition period" to give banks more time to adjust to the new accounting regulations.

Mr Javier Gavito, a vice-president at the National Banking and Securities Commission, said the length of the transition would be decided and announced in December. "We are studying different scenarios," Mr Gavito said. "The financial markets will be given simple warnings of the help banks will be getting with the transition to US GAAP."

Many Mexican banks, led by Bancomer, the country's second-largest financial group, have been setting aside extra provisions to prepare for the change to US accounting practices.

The transition to US GAAP is expected to hit mortgage portfolios particularly hard. Under Mexican accounting rules, only the instalment of a loan that has lapsed is considered past-due. In the US, however, the entire mortgage must be classified as non-performing if no payment has been received for 180 days. For certain commercial credits and consumer loans, the cut-off date is 90 days.

Since March, banking regulators have conducted private exercises with the banks to test the sensitivity of the mortgage portfolio to different cut-off dates.

"Under US GAAP," said Mr Jose Garcia-Cantero, a senior banking analyst at Salomon Brothers in New York, "past-due loan figures for the mortgage portfolio increased three-fold".

However, Mr Garcia-Cantero said mortgage portfolios should have begun to show an improvement in September, when interest subsidies for mortgage holders began to take effect.

This announcement appears as a matter of record only

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September 1996

Templeton

Templeton Global Strategy Funds. Notice of Annual General Meeting of Shareholders of Templeton Global Strategy Funds

Notice is hereby given that the Annual General Meeting of Shareholders (the "Meeting") of Templeton Global Strategy Funds (the "Company") will be held at the registered office of the Company on November 29, 1996, at 11.00 a.m., with the following agenda:

- Agenda: Presentation of the Report of the Board of Directors; Approval of the Financial Statements of the Company for the accounting year ended June 30, 1996; Discharge of the Board of Directors and of the Auditors; Re-election of the following ten persons to the Board of Directors: Messrs Charles E. Johnson, Dickson S. Anderson, The Honorable Nicholas F. Brady, Maria L. Flaagan, His Grace The Duke of Abercorn James Hamilton, Mark G. Holowinski, The Right Reverend Michael A. Mann, Daniel Marc, Gregory E. McGowan and Dr J.A. Mark Mobius; Re-election of Coopers & Lybrand S.C. as Auditors; Approval of the payment of annual dividends for the accounting year ended June 30, 1996; Consideration of such other business as may properly come before the Meeting.

Resolutions on the agenda of the Meeting will require no quorum and will be taken at the majority of the votes expressed by the shareholders present or represented at the Meeting.

VENUE OF THE MEETING: Shareholders are hereby advised that the Meeting may be held at such other place in Luxembourg than the registered office of the Company if exceptional circumstances so require in the absolute and final judgment of the Chairman of the Meeting. In such latter case, the Shareholders present at the registered office of the Company on November 29, 1996, at 11.00 a.m., will be duly informed of the exact venue of the Meeting, which will then start at 12.00 p.m.

- Five further information, Shareholders are invited to contact their nearest Templeton office: Edinburgh, Frankfurt, Hong Kong, Luxembourg, Tel: (44) 141 69 272 23 272, Tel: (49) 69 272 23 120, Fax: (852) 2877 7733, Tel: (352) 46 66 67 212, Fax: (852) 2877 5401, Fax: (352) 22 21 60

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"Raiffeisen Zentralbank Österreich Aktiengesellschaft" (the "Company") INVITATION to the Company's shareholders and holders of participation certificates issued by the Company ("Raiffeisen-Verfügungsscheine") to a BRIEFING on the resolutions to be passed at an extraordinary general meeting of the Company (the "Extraordinary General Meeting") at 9.30 a.m. on Thursday 12th December 1996, room A, 9th floor, at the head offices of the Company, Am Stadtpark 9, 1030 Vienna, Austria and to the EXTRAORDINARY GENERAL MEETING at 10.00 a.m. on Thursday 12th December 1996, room A, 9th floor, at the head offices of the Company, Am Stadtpark 9, 1030 Vienna, Austria. AGENDA: 1. Approval of the draft of the merger contract between the Company and "TRUITA Handels- und Baugesellschaft mbH" ("TRUITA") and the transfer of the shares of the Company to TRUITA in accordance with the merger contract...

COMPANIES AND FINANCE: THE AMERICAS

Christmas consumption expected to edge up

By Richard Tomkins in New York

US retailers have shown encouraging signs of profits growth as their third-quarter results pour in, but nervous investors are still not convinced the sector is on course to recover from a string of dismal Christmases.

In the US, the Christmas holiday selling season is traditionally regarded as starting the day after Thanksgiving, which falls on the third Thursday of November.

One cause for concern is that, because of the way the calendar falls, Thanksgiving is unusually late this year, so reducing the number of shopping days in the season.

In reality, people seem unlikely to cut friends and relatives from their gift lists simply because there are fewer shopping days available. Yet the fact remains that consumers are still a long way from resuming the shopping habits they adopted in the late 1980s.

The economy is growing

only slowly, people are nervous about corporate downsizing, ageing baby boomers have other spending priorities, and working women have less time to shop.

Making matters worse is the fact that the retail sector is burdened by overcapacity. The growth of discount stores and specialty superstores such as Toys "R" Us and Home Depot has resulted in a big addition to retail space at a time when spending is almost static.

In the past few years, retailers have repeatedly been caught out by an excess of optimism in the run-up to Christmas. They have built up inventories in the expectation of strong sales, only to encounter a deafening silence at the tills. Then, in a last-minute panic, they have had to slash prices and profit margins in order to rid themselves of the unwanted goods.

This year, investors are hoping that retailers will avoid the mistake of overstocking.

They are also hoping that the tills will ring a little louder, and have been looking for signs of strengthening consumer demand in

US retailers - third-quarter results

Table with 6 columns: Store group, Sales (\$bn) 1995, Sales (\$bn) 1996, % change, Net profit (\$bn) 1995, Net profit (\$bn) 1996, % change. Rows include Sears Roebuck, Kmart, Dayton Hudson, J.C. Penney, May Dept. Stores, Woolworth, Gap.

Note: discontinued/discontinued methods

Source: Dunamyte reports

the third-quarter figures just published. Indeed, some retailers have been doing much better. Kmart and Woolworth have continued their slow recovery from severe financial difficulties. The Limited and Toys "R" Us are bouncing back from last year's depressed performance, and Home Depot and Gap have continued their strong growth.

Even so, it is not a clear picture that emerges. Mr David Penman, an analyst at Sanford C. Bernstein,

says: "I don't think we get a single message from the top 10 retailers. It has been very much a series of individual stories, light on a common theme."

However, Mr Penman believes this year's holiday season will be more profitable than last year's. "The industry's inventory-to-sales ratios are in better condition than they were this time last year," he says.

"Though I do share the concerns of some retailers that the difficult calendar may constrain the rate of

year-to-year improvement."

Mr Mark Husson, an analyst at J.D. Morgan Securities, says it is instructive to look at Wal-Mart Stores' figures because the company has grown so large that it has almost become the US retail market.

On the face of it, Wal-Mart's figures looked good: net profits were up 12 per cent to \$684m. But Mr Husson says most of the increase came from a gain on the sale of the company's photo processing business to Fuji Photo Film, without

which earnings would have been flat.

"I think what this tells you is that the consumer is pretty cautious," Mr Husson says. And he also points to Wal-Mart's decision to stop selling computers in most of its stores. "If Wal-Mart doesn't think there is going to be much in the way of computers to sell this Christmas, that suggests it is going to be another low-ticket holiday season."

Another factor that could suppress sales is the continuing high level of consumer instalment debt. But as Mr Husson says, most people still have jobs, and the political uncertainty of the US elections is now out of the way. "So I think at the end of the day it will be an okay Christmas, if a low-ticket one."

One exception to the low-ticket theme could be luxury goods stores, which have been enjoying big increases in sales because of the feel-rich factor generated by booming stock markets. If they continue to rise, Mr Husson says, "there will be plenty of Gucci ties and scarves flying around over the Christmas period."

Sony turns its face to brave Hollywood future

Christopher Parkes on attempts to draw a line under the entertainment arm's chaotic past

Nobuyuki Idei, president of Sony, set his reputation on the line in Los Angeles this week. The occasion was a public endorsement before Hollywood's merciless press boulevardiers of the new team he has personally installed at the group's entertainment division.

It seemed intended to mark the cut-off line between the era of management chaos and uneven performance at the division's flagship studios, Columbia and Tri-Star, and a brave new future dotted with vague objectives.

Prime among these: an initial public offering of shares in Sony Pictures Entertainment - "but I cannot tell you when".

The prospect was well-received on Wall Street. As Philips found when it sold off 20 per cent of Polygram, SPE could well prove to be valued at much higher multiples than the electronics and hardware business of its parent, according to Mr Christopher Dixon, an analyst at PaineWebber. It would increase pressure to perform on its operating divisions, and give the company added financing

flexibility, he said. Timing of the IPO will depend on how SPE president Mr John Calley, a veteran film executive from United Artists and Mr Jeff Sagansky, a strategist who shares the presidency, perform in the next few years.

Almost seven years after Sony's ill-fated \$3.4bn purchase of Columbia from Coca-Cola - and almost two years after Mr Idei took charge at Sony - order appears to have been restored.

After a dire summer season with a sequence of under-performing films, a Barbra Streisand vehicle, The Mirror Has Two Faces, opened last weekend to strong reviews. However, the company will need a run of successes before Mr Idei can confidently approach the market with his share offer and the key to new sources of film financing.

Success at the box office will also depend on the new management's ability to attract top directing, acting and writing talents to studios which - unfairly, says Mr Idei - have become benchmarks for failure.

of the studios were wrong. Even Mr Idei was prepared wryly to admit to one failing. "So far, Sony has no face in Los Angeles," he said.

If saving face were enough, the installation of the new management team would be a sound start on the road to rehabilitation. But Mr Calley and Mr Sagansky may have other problems.

Conventional wisdom in some quarters of the entertainment business - illustrated by Walt Disney, Time Warner and News Corp - dictates that success depends on marrying production with distribution.

Although SPE owns a cinema chain, federal regulations prevent foreign entities from owning television stations. Mr Sagansky said this week the company was still undecided on whether it needed its own distribution, noting that it had not experienced any problems winning buyers and air-time for its television programme productions.

There is no obvious shortage of potential partners - CBS, the network-based company soon to be split off from the Westinghouse

group, and General Electric's NBC are most frequently mentioned.

Nor, with television earning consistent profits, is there any rush. The situation is similar at the successful music division, based on the former CBS Records, which this year so far has won a 15 per cent share of the US compact disc market. SPE's annual operating profits of about \$250m still represent scant return on

the group's investment to date - equivalent to the budgets of about four new films.

Still, the division's financial status is markedly healthier than two years ago, when Sony first admitted its mistakes and wrote off \$3.2bn against its studio losses.

This leaves Mr Calley, who started work last week, and his colleagues time and space to tackle the main task at hand.

"I am not responsible," Mr



Nobuyuki Idei: public views of studios wrong, but Sony lacking 'face' in Los Angeles

group, and General Electric's NBC are most frequently mentioned.

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GT INVESTMENT FUND SICAV. NOTICE OF MEETING. Notice is hereby given that the quorum required by law was not reached at the extraordinary general meeting of the Fund held on October 30, 1996...

Raiffeisen Zentralbank Österreich Aktiengesellschaft. INVITATION. In the presence of shareholders and holders of participation certificates issued by the Company "Raiffeisen-Vereinsbank Austria"...

SMART COMMUNICATIONS, INC. Japanese Yen Equivalent of US\$ 55,000,000. TERM LOAN FACILITY. Arranger and Lead Manager ING Bank Manila. Senior Managers Banque Nationale de Paris, Manila Offshore Branch...

ABBEY NATIONAL. Abbey National Treasury Services plc. ECU 100,000,000. 6 1/4 per cent. Guaranteed Notes due 1999. Unconditionally and irrevocably guaranteed by Abbey National plc.

Raiffeisen Zentralbank Österreich Aktiengesellschaft. RZB - Austria. U.S. \$100,000,000. Perpetual Floating Rate Subordinated Notes. For the six months 20th November, 1996 to 20th May, 1997 the Notes will carry an interest rate of 3.5125% per annum...

National Australia Bank Limited. U.S. \$500,000,000. FLOATING RATE NOTES DUE 1997. Notice is hereby given that the Rate of Interest has been fixed at 5.4% and that the interest payable on the relevant Interest Payment Date February 21, 1997 against Coupon No. 4 will be US\$13.80 in respect of US\$1,000 nominal of the Notes...

CONTRACTS & TENDERS. FISTRAL BEACH IMPROVEMENTS, NEWQUAY, CORNWALL. The Council of the Borough of Restormel, with other parties intends to improve the facilities provided at Fistral Beach in Newquay, over the period 1997-2003. This is a key flagship project in the SR22 programme.

COMPANIES AND FINANCE: ASIA-PACIFIC

ANZ optimistic despite modest rise to A\$1.1bn

By Nikki Tait in Sydney

Australia and New Zealand Banking Corporation (ANZ) yesterday posted a modest 8 per cent increase in after-tax profits for the year to September, but its share price strengthened after Mr Don Mercer, chief executive, said the bank expected to make further gains in the current year.

After-tax profit was A\$1.12bn (US\$888m), compared with A\$1.03bn the previous year. Earn-

ings per share rose more strongly, by 11 per cent, to 76.3 cents, while the return on shareholders' equity advanced from 17.6 per cent to 18.3 per cent.

The result was struck after only a small reduction in the charge for bad and doubtful debts, from A\$174m to A\$154m. ANZ said asset quality continued to improve, with net non-accrual loans falling from A\$1.08bn to A\$724m.

ANZ said the profits gain came

largely from a 13 per cent growth in total assets. Asset growth was "reasonable" in all markets, but the strongest lending expansion continued to come in ANZ's international operations, notably in Asia.

After-tax profits in the Asia-Pacific region and south Asia rose 25 per cent, to A\$99m, and 23 per cent, to A\$36m, respectively. By contrast, the core Australian business showed a more modest 7 per cent advance, to A\$657m after tax.

while New Zealand operations saw a 5 per cent reduction, to A\$188m.

ANZ said gross interest margins in Australia and New Zealand had been lower, "reflecting intensely competitive conditions, particularly in the home loan market". Group net interest income rose from A\$3.08bn to A\$3.32bn, while the gross interest spread narrowed from 2.79 per cent to 2.67 per cent.

Operating expenses rose 8.5 per

cent, to A\$3.64bn, with the operating expense to net operating income ratio widening from 65.9 per cent to 67.3 per cent.

ANZ said the increase reflected higher personnel costs, which were caused partly by additional staff needed in the first phase of an internal restructuring. Mr Mercer indicated that the benefits of this, in terms of lower expenses, should come through in the second half of 1996-97.

Asked about the prospect of a

profits increase in the current year, the chief executive said: "We expect it of ourselves." ANZ warned that a further contraction of margins was likely. It also expected subdued economic activity in early 1997, with some acceleration later in the year. "There are some risks to the short-term outlook in New Zealand arising from the prolonged period of very high real interest rates and uncertainty surrounding the new political arrangements."

MRCB to buy 19% of Rashid Hussain

By Lai Chen in Kuala Lumpur and James Kynge in Singapore

Malaysian Resources (MRCB), a property and publishing group with strong government links, announced yesterday it would buy a 19.05 per cent stake in the country's leading stockbroking group, Rashid Hussain.

The purchase is the first step in a complex merger which will form one of the nation's biggest banking and financial services groups. The other parties in negotiations to form the merged group are DCB Holdings, a banking affiliate of Rashid Hussain, and Kwong Yik Bank, the 75 per cent-owned subsidiary of Malaysia's biggest bank, Maybank.

MRCB said it would buy 66.18m shares in Rashid Hussain at M\$15.80 each, the last price before trading was halted to prepare for the merger talks. The property and publishing group said it would issue 130.6m new shares at M\$9 each to pay for the acquisition.

Together with another 3.5m Rashid Hussain shares which it has bought in the open market, MRCB will own a total of 69.68m shares in the brokerage, or a 30.06 per cent stake.

MRCB has close links to the United Malays National Organisation, the dominant party in Malaysia's ruling coalition. Through its stake in Rashid Hussain, the government is likely to maintain a significant say in the actions of the merged banking and financial services company, industry analysts said.

It is not yet known what the total assets of the merged entity will be, but analysts said that it would probably be the second or third biggest banking group in Malaysia. That Maybank was willing to sell off a profitable subsidiary to a future competitor is a measure of the Malaysian government's powers of persuasion, the analysts said.

Qantas upbeat in face of fuel price increases

By Nikki Tait

Qantas, the privatised Australian airline in which British Airways holds a 25 per cent stake, said yesterday it still expected to increase profits in 1996-97, despite higher fuel prices and a softening market.

It warned, however, that it would need to exceed the A\$300m (US\$261.9m) of cost-savings planned for the current year.

The forecast was given to shareholders at the company's annual meeting in Melbourne yesterday by Mr Gary Pemberton, chairman. Mr Pemberton acknowledged that predictions were difficult in the aviation business. "This prediction is not without downside risk and the extent of any improvement will be largely determined by market conditions in the second half of the year."

He said the market had softened since Qantas set its budgets for the year, with "both loads and yields reflecting tough economic conditions". He added that the recent rise in fuel costs and the higher Australian dollar were also likely to affect profit growth.

Mr Pemberton also criticised Australia's federal government, warning that attempts to ensure that Ansett develops as a second Australian international car-

rier, through the award of route rights, could have serious implications for Qantas.

"Under this policy, Ansett has been very sensible and selectively attacked the more attractive routes flown by Qantas. The government has taken comfort from the resulting short-term increase in the combined market share of Australian carriers," he said.

He warned that "long-term, the situation is likely to be the reverse," with Qantas less able to invest in new markets. Mr Pemberton added there was a "real concern" that some capacity rights might be reallocated from Qantas to Ansett.

Shareholders, however, seemed more concerned about the Qantas share price, which hit A\$2.44 after last year's flotation, but is now standing at A\$1.96.

Mr Pemberton also addressed the problem of restrictions on foreign ownership, which prevent overseas buyers from holding more than 50 per cent of the stock. "Domestic demand has weakened at a time when, ironically, overseas demand is under-realised," he said.

Qantas was exploring ways to resolve this, though the company would not entertain two classes of equity, such as "A" shares for domestic investors and "B" shares for foreigners.

Formosa Plastics to expand US plant

By Laura Tyson in Taipei

Formosa Plastics, the listed flagship company of the Formosa Plastics group, Taiwan's biggest industrial concern, plans to invest US\$500m to expand a petrochemical plant in the US.

Share prices of the group's three listed companies firmed yesterday on the news. Formosa Plastics gained T\$2.50 to close at T\$65.00; Nan Ya Plastics climbed T\$3.50 to T\$97.00; and Formosa Chemical & Fibre rose T\$0.30 to T\$98.80.

US government approval for the project in Texas is expected by the end of next year and construction will take two years. The annual production capacity of the plant will rise from 600,000 tonnes of ethylene to 1,560 tonnes. Ethylene is a raw material used to make PVC, of which the Formosa group is among the world's leading producers.

In 1993, the Formosa group, which has interests including petrochemicals, electronics and power generation, launched a US\$9bn naphtha cracking complex in central Taiwan. Construction of the complex is scheduled to be completed in six years.

Once the planned expansion in Taiwan and in the US is complete, the group's combined annual ethylene production will be 2.91m tonnes.



'A turning point' for Deutsche Telekom

Investors had hoped the Tuesday debut of Deutsche Telekom on the Tokyo Stock Exchange would generate some upward momentum in the moribund stock market, writes Gwan Robinson in Tokyo.

The stock opened at Y2,500, up about 18 per cent from its public offer-

ing price of DM28.50 (Y2,100), but fell back Y60 to close at Y2,440. In Wednesday's trading, Deutsche Telekom lost a further Y80 to close at Y2,410.

Despite the unremarkable performance, Mr Ron Sommer, Deutsche Telekom chief executive (pictured cen-

tre), said the Tokyo listing was "a turning point" in the company's global strategy.

With Mr Sommer at the Tokyo Stock Exchange yesterday were Mr Joachim Kroese (right), Deutsche Telekom chief finance officer, and Mr Shin Akamine, TSE press officer.

Dah Sing in private bank venture

By John Fiddling in Hong Kong

Dah Sing Financial Holdings, the Hong Kong financial services group, yesterday announced the formation of a joint venture international private banking operation with Abbey National and Hambros Bank, the parent company of the new venture. Dah Sing will hold the balance of the shares and have 80.2 per cent of the voting rights in the company.

The move is designed to capitalise on the growing demand for private banking services in Hong Kong and the Asia-Pacific region. According to the shareholders,

it also represents a vote of confidence in Hong Kong's business prospects ahead of next year's return to Chinese sovereignty.

Under the terms of the accord, the two UK banks will each invest about HK\$85m (US\$11m) and will each hold 24.5 per cent of the capital of D.A.H. Holdings, the parent company of the new venture. Dah Sing will hold the balance of the shares and have 80.2 per cent of the voting rights in the company.

The vehicle for the joint venture will be the Wing On Bank, a wholly-owned subsidiary of Dah Sing which has a single branch, in Hong Kong. A Channel Islands subsidiary will also be established under the holding company.

According to Dah Sing, the new bank will target clients in Hong Kong and south-east Asia with liquid assets in excess of US\$250,000. The Channel Islands operation, which will be managed by Hambros, will offer complementary services to clients.

Abbey National said the move was a step in the expansion of its Hong Kong business, after the establishment of a representative office in the territory earlier in the year.

of Dah Sing's strategy of forming joint ventures in selected market sectors.

Mr Charles Perrin, Hambros chief executive, said the new venture provided the opportunity to develop one of its core businesses in one of the world's fastest-growing private banking markets.

Abbey National said the move was a step in the expansion of its Hong Kong business, after the establishment of a representative office in the territory earlier in the year.

Avco Trust PLC
(Incorporated with limited liability in England and Wales under the Companies Act 1985. Registered number 7213021. An authorized institution under the Banking Act 1987)
£75,000,000
Guaranteed Floating Rate Notes due 1998
 Notice is hereby given that the Rate of interest for the interest period November 20, 1996 to February 20, 1997 has been fixed at 6.53906% and that the interest payable on the relevant interest Payment Date February 20, 1997 against Coupon No. 7 will be £164.82 in respect of £100,000 nominal of the Notes, and £1,648.20 in respect of £1,000,000 of the notes.
November 21, 1996
 By: Citibank, N.A. (Corporate Agency and Trusts, Agent Bank) **CITIBANK**

The Financial Times plans to publish a Survey on
French Finance & Investment
 on Monday, December 9
 For further information please contact:
 Lindsay Sheppard (London)
 Tel: +44 (0)171 873 3225 or Fax: +44 (0)171 873 3204
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CONTRACTS & TENDERS

CALL FOR TENDERS
FOR THE SALE OF 55,040 DMT
OF PYRITE CONCENTRATE

"HELLENIC CHEMICAL PRODUCTS AND FERTILISERS COMPANY S.A." of 20, Amalias Avenue, Athens 105 57, Greece, announces
 a call for tenders
 for the sale of 55,040 DMT of pyrite concentrate with gold content of approx. 22.7 g.p.t. The Offering Memorandum can be obtained on request from Mr. S. Michaelides at Fax No. +30-1-32.21.103.
 Such Offering Memorandum contains information about the quality of the goods, the shipment, the terms of payment etc. and will be the base for the sale contract.
 Sealed offers must be submitted by 13.00 hours (local time) on 5th December 1996 at the company's office as above. The tenders will be opened at 14.00 hours on the same date. Authorized representatives of tenderers may attend if they wish.
 The Company reserves the right to reject any or all of the tenders with no obligation to give any reason for so doing.

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HUNGARIAN PRIVATIZATION AND STATE HOLDING COMPANY

ANNOUNCEMENT

We would like to inform all interested parties and bidders that the Hungarian Privatization and State Holding Company decided, at the November 5, 1996 Board of Directors meeting, to conclude the single-round tender announced for the sale of the formerly MOM property complex, inclusive of its buildings, on Csorvási utca with a total land area of 40,454 square meters and 64,055 square meters of gross floor area - which property is registered under lot number 7867 on page 321, lot number 7866/31 on page 731, and lot number 7866/3 on page 705 of the property register. Bajor Házépítő Ingatlanforgalmazó és Építő Kft. made the most valid bid, and it was accepted.

Takeover of Darwin Molecular will give Bill Gates a 3% stake in the UK company
Chiroscience in \$120m biotechnology deal

By Daniel Green
Chiroscience yesterday announced the \$120m takeover of a fellow biotechnology company...

soft, the world's biggest software company, owns a 14 per cent stake in Darwin. The deal takes Chiroscience away from its origins as a business that purified drugs through the separation of molecules that are chemically identical but whose shapes are mirror images of each other.

signed a collaboration agreement last spring. Darwin had been the only company Chiroscience studied to combine two methods of drug discovery: combinatorial chemistry, in which hundreds of thousands of molecules can be quickly tested for their potential as drugs, and genomics, the search for human genes that are linked to a disease.

had led to potentially interesting new drugs but lacked the funds to develop them. "We did not want to go to a large pharmaceutical company for support because we would have had to sell them too much," he said.

might also have been hard for Darwin to persuade investors it was different from other genomics and combinatorial chemistry companies. Privately-owned Darwin was founded in 1991 and raised \$50m through a series of private fund raisings.

Courtaulds warns on sterling



Gordon Campbell

By Jenny Luseby
The impact of strong sterling on the international competitiveness of British companies is being overlooked, according to Courtaulds, the chemicals company.

expectations. Pre-tax profits fell to \$24m (\$10.5m) in the six months to September, down from \$58m. On a like-for-like basis, there had been some progress, said Mr Campbell.

had been predicting an "inevitable" fund-raising exercise. However, the group announced a sharp improvement in cash-flow to \$100m in the first half, compared with \$78m last time.

20 Asians seek to launch bank with Midland

By Khozem Merchant
A group of 20 UK-based Asian businessmen is in advanced talks to launch a bank jointly with Midland, part of the London-based HSBC financial group.

of England amid corruption charges in 1991. "We have joined hands with Midland. This is a terrific opportunity," said one of the group.

Granada says early Exclusive sale likely

By Scheherazade Daneshkhu and Raymond Snoddy
Mr Gerry Robinson, chairman of Granada Group, said yesterday that the TV and leisure company was likely to sell Forte's remaining 16 Exclusive hotels in a series of deals over the next two to three months.

Chubb makes A\$220m Australian purchase

By Nikki Tait in Sydney and David Blackwell
Chubb Security, the electronic alarms and locks group, yesterday agreed to buy the fire protection and building security businesses of James Hardie, the Australian building materials group, for A\$220m (\$171.6m) cash.

in Australia, Asia-Pacific and world-wide". After rationalisation, the deal was expected to be earnings enhancing in its first full year.

Mayne Nickless, the Australian transportation group which has also been rationalising. Hardie said the disposal was part of its continuing rationalisation programme, which is aimed at focusing the group on the fibre cement business and on building products generally.

National Power focuses on overseas investments

By Simon Holberton
National Power, Britain's biggest generator, will spend at least \$300m (\$496m) a year on foreign expansion until the end of the century, according to Mr Keith Henry, chief executive.

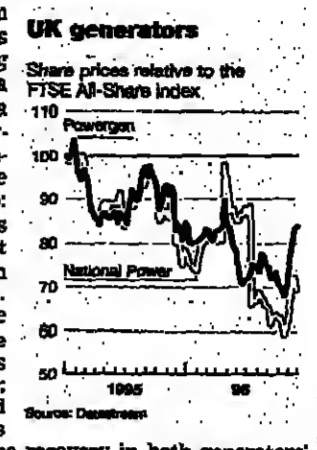
huge market overseas. "Every time you walk away from one project three more turn up." He maintained that US utilities purchases of English electricity companies meant more opportunities for National Power abroad.

LEX COMMENT Natl Power

National Power's interim results brought the stock's recent run to a juddering halt. But it looks more a temporary hiccup than a fundamental setback. Certainly there was no compelling reason for the shares' 4 per cent drop; perhaps the dividend was a shade disappointing, but there was nothing amiss in the underlying business.

Pearson in talks on Spanish TV stake

By Jimmy Burns
Pearson is looking at the possibility of extending its media interests in Spain by taking a stake in Telemadrid, a local TV channel based in the Spanish capital which is to be privatised.



RESULTS

Table with multiple columns: Company Name, Shares, Turnover, Pre-tax profit, EPS, Current dividend, Date of payment, Dividends/Share, Total for year, Total last year.

Verbundnetz Gas AG

Linking up with success

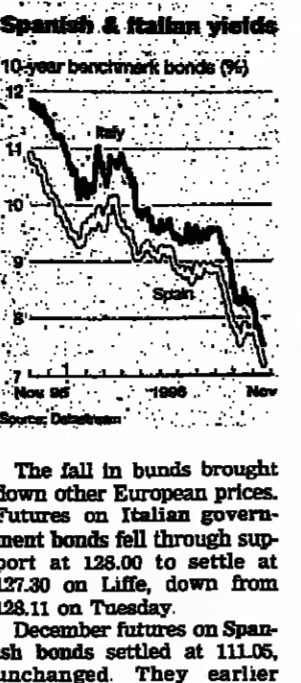
Advertisement for Verbundnetz Gas AG, featuring a large image of a gas pipe and text describing their services and partnerships.

Figures shown net. Figures in brackets are for corresponding period. *Comparatives restated. †After exceptional charge. ‡After exceptional credit. ††In increased capital. ‡‡Foreign income dividend. †††In stock. ††††Comparatives for 10 months. †††††Special. ††††††Reduced capital. †††††††Second interim, unless 1.55p to date. ††††††††Equivalent after adjustment for scrip issue. †††††††††Second interim, makes 12.5p to date.

INTERNATIONAL CAPITAL MARKETS

European prices hit by signs of German upturn

Liffe's December bond futures contract settled at 100.88, down from 101.19 the previous day...



The fall in bonds brought down other European prices. Futures on Italian government bonds fell through support at 128.00 to settle at 127.30 on Liffe...

below - those of bonds. This convergence is likely to be favoured by bullishness deriving from the lire's expected return into the European exchange rate mechanism...

By early afternoon the US currency was changing hands at DM1.4958 and Y111.31 compared with DM1.5056 and Y111.63 late on Tuesday.

Catex and Bermuda SE in risk venture

The Bermuda Stock Exchange and the Catastrophe Risk Exchange yesterday announced plans to establish a new risk exchange in Bermuda.

Decks cleared for Russian debut

With heavy oversubscription there is likely, dealers said the issue could be as large as \$750m to \$1bn - significantly more than the previously mooted \$300m to \$500m.

The \$240m issue was led by J.P. Morgan, which reported strong demand from UK investors as well as clients in continental Europe...

New international bond issues

Table listing bond issues with columns for Issuer, Amount, Coupon, Price, Maturity, and Spread. Includes entries for Banco Fomseca & Burnay, Inter-American Dev Bank, etc.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS table with columns for Coupon, Red Date, Price, Day's change, Yield, Week ago, Month ago. Lists countries like Australia, Austria, Belgium, etc.

BUND FUTURES OPTIONS

Table for BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%. Includes CALLS and PUTS for Dec, Jan, Feb, Mar.

FTSE Actuarial Govt. Securities

Table for FTSE Actuarial Govt. Securities showing prices and yields for various UK gilts.

UK Indices

Table for UK Indices showing values for various indices like UK All-Share, UK 100, etc.

US INTEREST RATES

Table for US INTEREST RATES showing Treasury bill and bond yields.

ITALY

Table for ITALY showing NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES.

FT/ISMA INTERNATIONAL BOND SERVICE

Table for FT/ISMA INTERNATIONAL BOND SERVICE listing various international bonds.

BOND FUTURES AND OPTIONS

Table for BOND FUTURES AND OPTIONS showing prices and yields for various international bonds.

FRANCE

Table for FRANCE showing NOTIONAL FRENCH BOND FUTURES (MATIF) and LONG TERM BOND OPTIONS (MATIF).

OTHER FIXED INTEREST

Table for OTHER FIXED INTEREST listing various fixed interest securities.

UK GILTS PRICES

Table for UK GILTS PRICES listing various UK government securities and their prices.

GERMANY

Table for GERMANY showing NOTIONAL GERMAN BOND FUTURES (LIFFE) and LONG TERM BOND OPTIONS (MATIF).

DEUTSCHE MARK STRAIGHTS

Table for DEUTSCHE MARK STRAIGHTS listing various German government securities.

CONVERTIBLE BONDS

Table for CONVERTIBLE BONDS listing various convertible securities.

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CURRENCIES AND MONEY

Dollar falls on rising US trade deficit

MARKETS REPORT

By Simon Kuper

The dollar closed below the key psychological level of DM150 against the D-Mark in London yesterday, forced down by weak US trade figures and signs that the German economic recovery is continuing.

The US currency closed half a penny lower in London at DM149.85. Its slide could have been worse but for the market's belief that the Bundesbank was prepared to talk the currency back up again. The central bank's council members, who meet today, have spoken out recently whenever the dollar has dropped below DM150. But most currency traders dismissed rumours that the Bundesbank had enquired about dollar/D-Mark prices, supposedly as a prelude to intervening in support of the dollar.

stronger than DM150. Mr Megyesi said that economic fundamentals now seem to warrant a fall in the dollar, the Bundesbank may allow a fall to happen. The bank would only try to stop currency movements that were merely speculative, he said.

Mr Kit Juckes, currency strategist at NatWest Markets in London, said yesterday: "Today it looks as if the dollar has seen its high for the year already."

Traders would continue selling the currency, testing to see how low the Bundesbank would accept it falling, he said. "If the Bundesbank says anything quite soon there is a risk of a spike downwards."

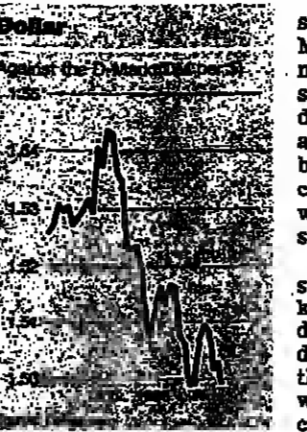
Currency strategists said the Bundesbank may now stop trying to keep the dollar

on strong UK retail sales figures. But it later fell on profit-taking, and was dragged down against the D-Mark by the dollar's slide. It closed 0.2 cents stronger against the dollar but 0.5 pennings weaker against the D-Mark.

The dollar lost Y0.2 against the yen, closing in London at ¥111.2.

Yesterday's German and US data taken together bode ill for the dollar.

Last month the market feared that Germany's economic recovery was faltering. But yesterday's strong Ifo survey of business confidence and fast German M3 growth reassured the market that the recovery continues. Meanwhile US data showed a ten per cent rise in the trade deficit when most analysts had expected it to shrink. The dollar's climb over the last year and a half has hurt US exporters. Mr Paul Megyesi, senior currency economist at Deutsche Morgan Grenfell in London,



Dollar falls on rising US trade deficit

said that the dollar had recently been propped up through buying by foreign central banks. There was insufficient private sector appetite for US assets to sustain the currency, he said. If US exporters began to call more loudly for a weaker dollar, President Clinton could approve it falling.

The French franc fell only marginally after Mr Valery Giscard d'Estaing, the former French president, called for a depreciation.

He said France should fix the franc against the future single European currency at a rate of FF77 per euro. This corresponds to a rate of FF83.65 to the D-Mark, compared with FF83.80 today. A depreciation would revive the French economy, he said.

The market expects Paris to stay with the franc fort policy. But with other voices also calling for a depreciation, the former president has at least alerted traders to look for signs of change.

The Bank of France is due to replace two members of its policy making council at the end of the year. Just possibly, it too could shift its stance in the debate.

For the latest market updates, ring FT Cityline on +44 990 209990. To subscribe, call +44 171 673 4376.

Other currencies: Cash 44.9787 - 44.724 28.070 - 28.070; Heavy 28.070 - 28.070 15.438 - 15.010; Gold 663.10 - 662.70 300.00 - 300.00; Silver 1.4888 - 1.4870 0.288 - 0.288; Platinum 4.7029 - 4.706 2.886 - 2.886; Swiss Franc 1.6317 - 1.6317 2.840 - 2.840; UAE 1.1342 - 1.1378 3.870 - 3.874.

Other currencies: Cash 44.9787 - 44.724 28.070 - 28.070; Heavy 28.070 - 28.070 15.438 - 15.010; Gold 663.10 - 662.70 300.00 - 300.00; Silver 1.4888 - 1.4870 0.288 - 0.288; Platinum 4.7029 - 4.706 2.886 - 2.886; Swiss Franc 1.6317 - 1.6317 2.840 - 2.840; UAE 1.1342 - 1.1378 3.870 - 3.874.

POUND SPOT FORWARD AGAINST THE POUND

Table with columns for currency, closing mid-point, change, bid/offer spread, day's high/low, one month, three months, one year, and bank of London.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table with columns for currency, closing mid-point, change, bid/offer spread, day's high/low, one month, three months, one year, and bank of London.

THREE MONTH EURO CURRENCY INTEREST RATES

Table showing interest rates for various currencies (Belgian Franc, Danish Krone, D-Mark, etc.) over different periods (Short term, 7 days, 1 month, 3 months, 6 months, 1 year).

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Table of exchange rates for various currencies (Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Japan, etc.).

D-MARK FUTURES (DM 125,000 per DM)

Table showing D-Mark futures prices (Dec, Mar, Jun).

UK INTEREST RATES

LONDON MONEY RATES

Table showing London money rates for various currencies (Interbank Sterling, Sterling CDs, etc.).

BASE LENDING RATES

Table showing base lending rates for various banks (Adam & Company, Allied Irish Bank, etc.).

JAPANESE YEN FUTURES (¥100 per Yen 100)

Table showing Japanese Yen futures prices (Dec, Mar, Jun).

STERLING FUTURES (S 250,000 per S)

Table showing Sterling futures prices (Dec, Mar, Jun).

EMS EUROPEAN CURRENCY UNIT RATES

Table showing EMS European Currency Unit rates for various countries (Ireland, Portugal, Spain, etc.).

NON-ERM MEMBERS

Table showing rates for non-ERM members (Switzerland, Norway, etc.).

THREE MONTH EURO CURRENCY INTEREST RATES

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WORLD INTEREST RATES

MONEY RATES

Table showing money rates for various currencies (Belgium, Denmark, Germany, etc.) over different periods (Over night, One month, Three months, Six months, One year).

LIBOR FT LONDON

Table showing LIBOR FT London rates for various currencies (Interbank Funding, US Dollar Cde, etc.).

EURO CURRENCY INTEREST RATES

Table showing Euro currency interest rates for various currencies (Belgian Franc, Danish Krone, D-Mark, etc.).

THREE MONTH EURO CURRENCY INTEREST RATES

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Union Limited advertisement for Futures and Options.

Berkeley Futures Ltd advertisement for Futures and Options.

Market-Eye advertisement for real-time market data.

FAST 64 KBIT SATELLITE TECHNOLOGY advertisement.

KNIGHT-RIDDER'S FUTURES MARKET DATABANK advertisement.

WANT TO KNOW A SECRET? advertisement.

SHARES - TAX FREE advertisement.

Quality Service advertisement.

OFFSHORE COMPANIES advertisement.

NUFACE advertisement.

Signal advertisement.

CITY INDEX advertisement.

Surges-Quickly advertisement for currency services.

Information on world currencies.

Information on world currencies.

Information on world currencies.

Information on world currencies.

Information on world currencies.

Information on world currencies.

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Information on world currencies.

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Information on world currencies.

Vertical text on the left margin: "atex and ermuda in risk nature"

Large advertisement for Thailand on Thursday, December 5.

COMMODITIES AND AGRICULTURE

Copper price retreats in late trading

By Kenneth Gooding and Deborah Hargreaves

Copper prices on the London Metal Exchange yesterday rose to a fresh five-month peak of \$2,240 a tonne.

Traders said business was light, with little physical demand, and copper eased back to end late trading down \$10 at \$2,215.

Market tightness eased slightly and the premium for copper for immediate delivery versus three-month metal slipped from \$17.50 to \$14.0 a tonne.

"The copper market will continue to face two problems in the months ahead: a shortage of metal ready available for prompt delivery, which will keep nearby prices high; and the likelihood of a substantial oversupply of copper during 1997 because of several new mine openings," said Mr Kerry Smith at First Marathon Securities.

trading in other products was mixed, as the market digested conflicting reports about US inventory levels.

Natural gas futures surged for the second day as cold weather continued to dominate traders' minds.

North Sea Brent crude for January delivery rose 25 cents in London to \$23.52 a barrel, with December oil futures in the New York Mercantile Exchange up 16 cents by mid-session to \$24.65 a barrel.

Figures released by the American Petroleum Institute late on Tuesday showed that crude stocks fell by 3.5m barrels last week, pushing inventory levels to 5.82m barrels below the level of a year ago.

Crude oil and heating oil moved higher yesterday, but

Cotton 'under threat from high output'

By Deborah Hargreaves

Excess production in the world cotton market is expected to lead to falling prices in the medium term - to around \$1.40 per kg - according to a report to be published today by Rabobank, the Dutch agribusiness bank.

The report says high output over the next two seasons will lead to a build-up in the ratio between stocks and demand to a peak of 42 per cent in 1997-98 from last year's level of 35 per cent.

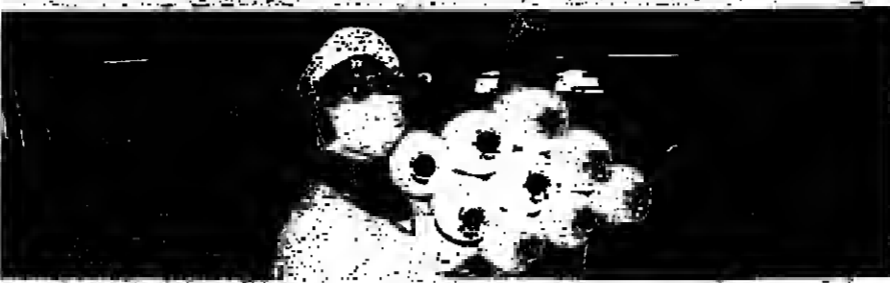
Increasing stocks and productivity improvements will result in falling real world prices for cotton, the report states, although prices are extremely volatile.

The textile industry has become much more competitive in recent years with new technology and innovation more important factors than low labour costs.

Buyers are also looking for better products at lower prices, the report notes.

Chinese production and demand play a large part in

Asian textile producers shift cotton trade flows



World cotton mill consumption 1970-1995. Former Soviet Union 18%, Western Europe 11%, Eastern Europe 9%, Africa 3%, Central & South America 5%, North America 4%, Oceania/Pakistan 2%.

determining the direction of world prices, the report notes, with yearly import and export savings expected to reach 300,000 tonnes next year, representing 15 per cent of world trade.

China holds one-third of world stocks, although it is increasing domestic production and cutting imports.

Rabobank forecasts a 15 per cent increase in the world cotton crop by 2000 to 31.4m tonnes from the current 20m tonnes. But while

output is set to rise, the report expects acreage under cultivation to stay the same, so most of the growth will come from improved yields.

Average world yield is around 50kg per hectare, but some countries, such as

the farmers say that, because the duty-free import of cotton is allowed and the raw material is available in abundance to the local textile mills there is no restriction on the amount of cotton that can be imported.

The Indian Cotton Mills Federation opposes the liberalisation. Mr M.P. Gajaria, the federation's secretary

Record crop to buoy Indian export campaign

By Kunal Bose in Calcutta

Indian farmers campaigning for the abolition of the country's cotton export quotas say their fight will be boosted because the country is heading for a bumper cotton crop for the 1996-97 season.

The powerful farmers lobby says the federal government's quota system is "cumbersome" and claims that dropping it will help farmers get a better price for exports.

The forecast of a bumper crop from this season, which started last month, is based on the record production of 15.65m of 170kg bales achieved in the 1995-96 harvest.

Mr Sanat Mohanta, the MP who is spearheading the farmers' campaign, says the free export of cotton will allow farmers to get world prices. Cotton is sold in India at between 10 per cent and 20 per cent less than world prices, depending upon the size of the crop.

Mr McCleskie said the board worked under a parliamentary statute which required it to buy all export fruit and market it, paying on account. It is to face another board hearing next week to decide how much fruit it can export.

market to ensure it got the best returns.

Appiefields was last year given permission to export 50,000 cartons of fruit on its own account. It is to face another board hearing next week to decide how much fruit it can export.

New Zealand apple grower mounts challenge to regulator

By Terry Hall in Wellington

A New Zealand apple growing company is threatening to approach all its trees and throw 2,000 people out of work if it is not allowed to export the whole of its crop.

Zealand Apple and Pear Board's right to control the country's apple exports is the latest in a series by Appiefields, of South Island. The company says it cannot survive as a grower while the board has monopoly powers. Mr Tom Kain,

chief executive, says he has agreements with international producers to buy his crop at higher prices than the board is likely to pay.

Mr Mike Littlewood, chairman of the New Zealand Fruit Growers' Association, accused Mr Kain of blackmail, and said virtually all the other 1,800 growers supported the board.

Mr McCleskie said the board worked under a parliamentary statute which required it to buy all export fruit and market it, paying on account. It is to face another board hearing next week to decide how much fruit it can export.

market to ensure it got the best returns.

JOTTER PAD table with columns for Date, Price, Prev. day, 15 day average.

CROSSWORD No.9,231 Set by DANTE. Includes clues for 1-31 and 1-25.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE table with columns for Metal, Price, Change, High, Low, Vol.

Precious Metals continued

GOLD COMEX table with columns for Date, Price, Change, High, Low, Vol.

GRAINS AND OIL SEEDS

WHEAT LFFE table with columns for Date, Price, Change, High, Low, Vol.

SOFTS

COCOA LFFE table with columns for Date, Price, Change, High, Low, Vol.

MEAT AND LIVESTOCK

LIVE CATTLE CME table with columns for Date, Price, Change, High, Low, Vol.

ENERGY

CRUDE OIL NYMEX table with columns for Date, Price, Change, High, Low, Vol.

CRUDE OIL NYMEX

CRUDE OIL NYMEX table with columns for Date, Price, Change, High, Low, Vol.

SOYABEAN OIL

SOYABEAN OIL table with columns for Date, Price, Change, High, Low, Vol.

COFFEE

COFFEE LFFE table with columns for Date, Price, Change, High, Low, Vol.

SUGAR

WHITE SUGAR LFFE table with columns for Date, Price, Change, High, Low, Vol.

PRECIOUS METALS

LONDON BULLION MARKET table with columns for Metal, Price, Change, High, Low, Vol.

UNLEADED GASOLINE

UNLEADED GASOLINE table with columns for Date, Price, Change, High, Low, Vol.

FUTURES DATA

FUTURES DATA table with columns for Metal, Price, Change, High, Low, Vol.

INDICES

INDICES table with columns for Index, Price, Change, High, Low, Vol.

LONDON SPOT MARKETS

LONDON SPOT MARKETS table with columns for Metal, Price, Change, High, Low, Vol.

MINOR METALS

MINOR METALS table with columns for Metal, Price, Change, High, Low, Vol.

VOLUME DATA

VOLUME DATA table with columns for Metal, Price, Change, High, Low, Vol.

MINOR METALS

MINOR METALS table with columns for Metal, Price, Change, High, Low, Vol.

INDICES

INDICES table with columns for Index, Price, Change, High, Low, Vol.

MINOR METALS

MINOR METALS table with columns for Metal, Price, Change, High, Low, Vol.

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (444 171) 875 4878 for more details.

LUXEMBOURG (SIB RECOGNISED)

Table listing various Luxembourg funds including AMBA Funds, AIA Funds, and others, with columns for fund name, price, and performance metrics.

LUXEMBOURG (REGULATED)

Table listing various Luxembourg funds including Merit Lynch Asset Management, Southern International SICAV, and others, with columns for fund name, price, and performance metrics.

OFFSHORE INSURANCES

Table listing various offshore insurance products and providers, including AXA, Allianz, and others, with columns for product name and details.

FT MANAGED FUNDS SERVICE

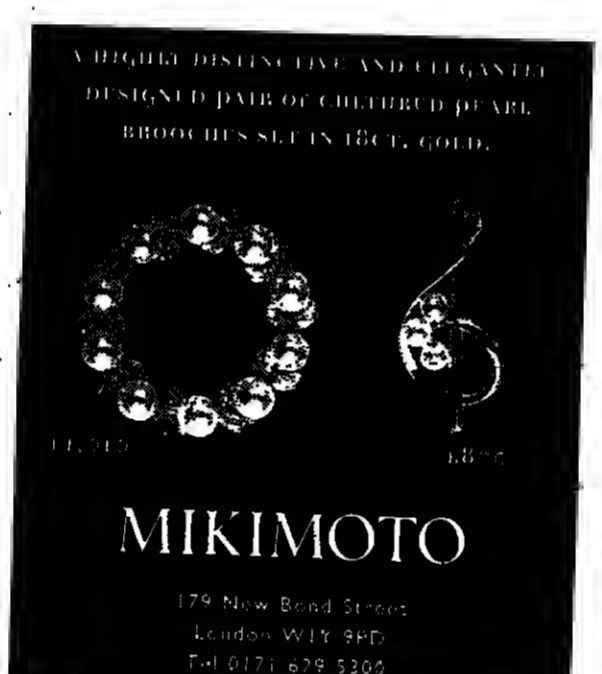
Offshore Insurances and Other Funds

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 674 4876 for more details.

Table listing various fund categories such as 'Old Mutual International (Guernsey) Ltd', 'AXA Asset Management', and 'Royal Bank of Canada'. Each entry includes fund names and their corresponding prices.

Table listing various fund categories such as 'GEM Dolphin Investment Managers Limited', 'J.S. Schroder Bank & Trust Company', and 'Lazard Freres & Co'. Each entry includes fund names and their corresponding prices.

Table listing various fund categories such as 'Options Fund Management', 'Sequoia Investment Management Ltd', and 'M&P Investment Management'. Each entry includes fund names and their corresponding prices.



179 New Bond Street London W1Y 9PD Tel 0171 679 3305

OTHER OFFSHORE FUNDS
ATP Management Ltd
New York City
New York City

MANAGED FUNDS NOTES
Prices are in pence unless otherwise indicated and are rounded to the nearest pence. All prices are as at the end of the reporting period. The reporting period is from the end of the reporting period to the end of the reporting period.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector with columns for company name, price, and change.

BANKS, MERCHANT

Table listing companies in the Banks and Merchant sector.

BANKS, RETAIL

Table listing companies in the Banks and Retail sector.

BREWERIES, PUBS & REST

Table listing companies in the Breweries, Pubs & Restaurants sector.

BUILDING & CONSTRUCTION

Table listing companies in the Building & Construction sector.

BUILDING MATS. & MERCHANTS

Table listing companies in the Building Materials & Merchants sector.

CHEMICALS

Table listing companies in the Chemicals sector.

CHEMICALS - Cont.

Continuation of Chemicals sector table.

DISTRIBUTORS

Table listing companies in the Distributors sector.

DIVERSIFIED INDUSTRIALS

Table listing companies in the Diversified Industrials sector.

ELECTRICITY

Table listing companies in the Electricity sector.

ELECTRONIC & ELECTRICAL EQPT

Table listing companies in the Electronic & Electrical Equipment sector.

ENGINEERING

Table listing companies in the Engineering sector.

ENGINEERING - Cont.

Continuation of Engineering sector table.

ENGINEERING, VEHICLES

Table listing companies in the Engineering and Vehicles sector.

EXTRACTIVE INDUSTRIES

Table listing companies in the Extractive Industries sector.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of Extractive Industries sector table.

FOOD PRODUCERS

Table listing companies in the Food Producers sector.

FOOD PRODUCERS - Cont.

Continuation of Food Producers sector table.

FOOD PRODUCERS - Cont.

Continuation of Food Producers sector table.

GAS DISTRIBUTION

Table listing companies in the Gas Distribution sector.

HOUSEHOLD GOODS

Table listing companies in the Household Goods sector.

HOUSEHOLD GOODS - Cont.

Continuation of Household Goods sector table.

INSURANCE

Table listing companies in the Insurance sector.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector.

INVESTMENT TRUSTS - Cont.

Continuation of Investment Trusts sector table.

INV TRUSTS SPLIT CAPITAL

Table listing companies in the Investment Trusts Split Capital sector.

INVESTMENT TRUSTS - Cont.

Continuation of Investment Trusts sector table.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector.

INVESTMENT TRUSTS - Cont.

Continuation of Investment Trusts sector table.

INV TRUSTS SPLIT CAPITAL

Table listing companies in the Investment Trusts Split Capital sector.

Advertisement for Galliard Homes 40 Luxury Apartments in Regent's Place, London. Includes details on investment opportunities and rental yields.

LONDON SHARE SERVICE

IV TRUSTS SPLIT CAPITAL - Cont.

Table listing various investment trusts and their performance metrics, including names like 'Investment Trusts' and 'Split Capital'.

LIFE ASSURANCE

Table listing life assurance companies and their financial data.

PAPER, PACKAGING & PRINTING - Cont.

Table listing companies in the paper, packaging, and printing industry.

RETAILERS, FOOD - Cont.

Table listing retailers and food companies.

TEXTILES & APPAREL

Table listing companies in the textiles and apparel industry.

AIM - Cont.

Table listing companies on the Alternative Investment Market (AIM).

OTHER INVESTMENT TRUSTS

Table listing other investment trusts.

OIL EXPLORATION & PRODUCTION

Table listing oil exploration and production companies.

PHARMACEUTICALS

Table listing pharmaceutical companies.

RETAILERS, GENERAL

Table listing general retailers.

TOBACCO

Table listing tobacco companies.

TRANSPORT

Table listing transport companies.

AMERICANS

Table listing American companies.

CANADIANS

Table listing Canadian companies.

SOUTH AFRICANS

Table listing South African companies.

INVESTMENT COMPANIES

Table listing investment companies.

PROPERTY

Table listing property companies.

SUPPORT SERVICES

Table listing support services companies.

WATER

Table listing water companies.

AIM

Table listing companies on AIM.

GUIDE TO LONDON SHARE SERVICE

Notes for the London Share Service are delivered by Eikon, part of Financial Times Information. This section provides detailed instructions on how to use the data.

LEISURE & HOTELS

Table listing leisure and hotels companies.

OIL, INTEGRATED

Table listing integrated oil companies.

OTHER FINANCIAL

Table listing other financial companies.

PROPERTY - Cont.

Table listing property companies (continued).

SUPPORT SERVICES - Cont.

Table listing support services companies (continued).

WATER - Cont.

Table listing water companies (continued).

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company associated with FT. Please quote the code FT050.

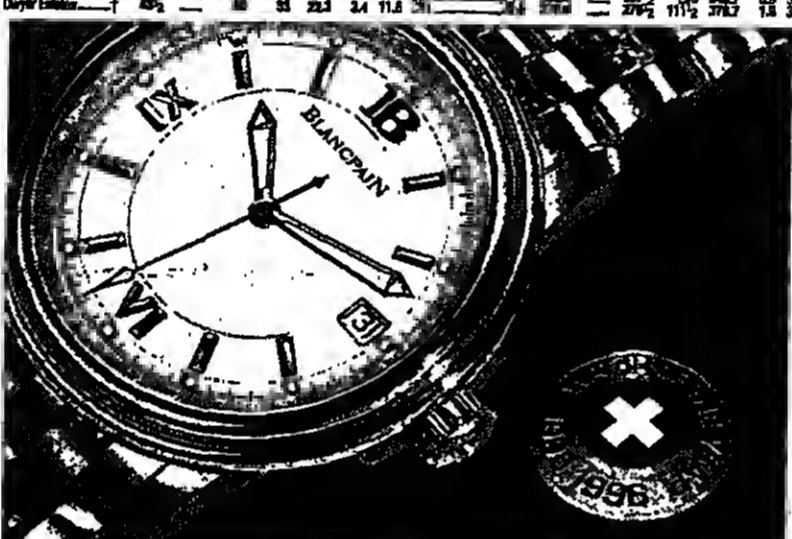
FT Company Focus / Focus Plus

Comprehensive 10-15 page report available on any company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

For readers phoning from outside UK, please dial +44 in place of the first 11. The share prices printed on these pages are also available on the internet at http://www.ft.com.



LONDON STOCK EXCHANGE

Equity market ignores Wall Street push

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

Disappointing domestic economic news, plus a poor showing by German bonds in the wake of the latest Ifo survey of business confidence and the M3 money supply figures, had a sharp impact on shares in London yesterday.

With gilts always on the back foot there was precious little support for equities. UK institutions are seen as having completed their pre-budget strategy moves and are reluctant to shift their portfolio stances.

rather grudging response to Wall Street's Tuesday night surge, which powered the Dow Jones Industrial Average towards the 6,400 mark. And there was no budging the bearish mood in London during the afternoon, even when the Dow moved past 6,400.

Some UK dealers said they expected London to respond eventually to the rise on Wall Street, which some of the raging bulls see penetrating 6,500 on the Dow in short order and 7,000 in the medium term.

The same dealers warn, however, that any evidence of overheating in the US economy will bring a rapid response from the Federal Reserve, which, they say,

would move instantly to boost US interest rates.

The latest UK economic news was responsible for the early turnaround in London stocks. A 0.4 per cent monthly rise in October retail sales was in line with forecasts and should have caused no problems for investors. But taken along with a higher than expected M4 money supply number, the figures caused extreme unease in the gilts market, which instantly fell away.

Just before the close the 10-year gilt was down around a quarter of a point, and the 20-year issue off some three-eighths, amid worries that another rise in UK interest rates may take place

before the election, expected at the start of May next year.

The FTSE 100 Index settled 15.3 lower at 3,962.8, not far from the day's low point. The FTSE 250 held up well, however, closing only fractionally off, down 0.1 at 4,400.2. The FTSE SmallCap eased 0.6 to 2,150.8.

UK stocks also talked at the latest bid developments, which included news that Entergy in the US had terminated talks with London Electricity.

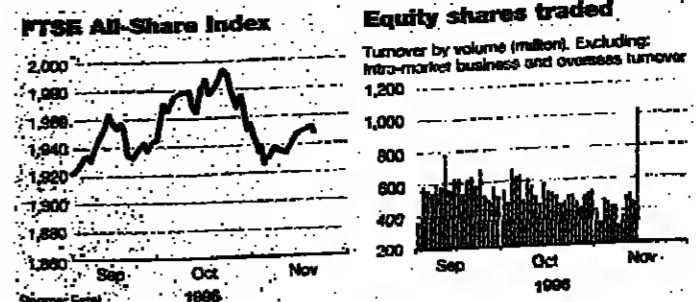
And the bid speculation in British Gas continued to lose momentum. Specialists maintained that the Shell bid rumours had at least highlighted the outstanding value in Gas shares after their

year-long moratorium.

Railtrack was the best Footsie performer as investors focused on the stock's outstanding asset value; the shares have risen over 75 per cent since their May float.

British Energy, the year's other privatisation stock, was prominent in the FTSE 250 ahead of this morning's maiden interim. Since its July float, shares in British Energy, the only privatisation issue to slide to a discount on its debut, have risen over 40 per cent, compared with a 6.4 per cent rise in Footsie.

Turnover at 5pm was 712.4m. Customer activity on Tuesday only just scrambled over the 51m-mark, reaching £1.02bn.



Indices and ratios table showing FTSE 100, FTSE 250, FTSE 350, FTSE All-Share, and FTSE All-Share yield with their respective values and percentage changes.

Equity shares traded table showing turnover by volume (million) and turnover by market business and overseas turnover.

Best performing sectors table listing various sectors like Distributors, Extractive industries, Media, Property, and Retailers with their percentage changes.

Worst performing sectors table listing sectors like Gas Distribution, Diversified Industrials, Household Goods, Paper, Pkg & Print, and Telecommunications with their percentage changes.

Sears up on sale hints

By Lisa Wood, Koel Kibazo and Peter John

Sears, which owns Freemans, rose 2 1/2 to 92 1/2 on rumours that there may be some consolidation in the agency mail order business.

The speculation was that Sears may either sell its Freemans agency mail order business to Pinault Printemps Redoute, the French retailer which owns the former Empire Stores, or else forge a joint venture with it.

One analyst also suggested that Otto Versand, the German mail order company, might also be a contender for Freemans. The agency mail order business in the UK, while large, is declining, and analysts said that consolidation would be logical.

Pinault Printemps Redoute has said it is keen to develop its overseas earnings. Analysts also said there was speculation that Sears might also pay a special dividend, with the amount of cash available boosted by a deal.

have been one of the best performing stocks of the year, having started trading in May at 200p. Yesterday they gained more than 7 per cent as they rose 23 to 34 1/2, the best performer of the day in solid turnover of 8.5m.

NaWest upgraded its 1997 profits estimate by 15m to 235m and the following year's figure by 110m to 234m and said: "The interim results demonstrated that Railtrack is ahead of expectations in terms of operating performance, cost reduction, property portfolio enhancement and cash generation."

However, the broker retained its "hold" recommendation on the shares saying, "with the rating now at the top end of the utility valuation matrix, share price performance will increasingly be driven by the political cycle."

In the rest of the transport sector, reports suggesting fire damage in the channel tunnel may be worse than expected weighed heavily on Eurotunnel. The shares fell to a six month low as they gave up another 2 to 86p.

Yorkshire hints

News that exploratory talks between London Electricity and Entergy Corporation of the US had been terminated led to a rapid shuffling of prices in the regional electricity sector.

The US group was responding to press reports that it was mulling a £1.2bn bid for the rec. Its comments led to a sharp mark-down in London, followed by a grad-

ual reassessment, as dealers decided that a hostile bid from another company was still a viable possibility. London ended the day only 8 1/2 off at 658 1/2p.

The same happened on a smaller scale to East Midlands Electricity, which fell to 607 1/2p before rallying and closing a penny higher at 611p. However, the principal beneficiary was Yorkshire, which rose 9 1/2 to 749p. There was a feeling that Entergy might find the northern utility more receptive.

International telecoms group Cable & Wireless was a talking point yesterday as it delivered interim figures in line with market expectations. The shares closed 1 1/4 off at 48 1/2p, following trade of 7.3m, with market talk suggesting the group may be lining itself up for corporate activity.

There were few hints from

the group as to the likely nature of that activity although one analyst suggested, "my guess is the management will want to reduce its holding in Hong Kong Telecom from the present 58.3 per cent to below 50 per cent. This would leave Hong Kong Telecom as a Chinese company and allow Cable to explore opportunities on mainland China."

Elsewhere, a two-way pull in Vodafone Group, which reported figures on Tuesday, prompted turnover of 17m. The shares were unchanged at 254p.

Northern Foods hardened 2 1/2 to 128 1/2p following results in line with market expectations. The shares closed 1 1/4 off at 48 1/2p, following trade of 7.3m, with market talk suggesting the group may be lining itself up for corporate activity.

There were few hints from

activities. One analyst suggested that the rumours might be from a "stale bull" - that is a marketmaker which had been bullish on the stock but, on changing its mind, was now trying to offload its position.

Speculation, emanating from Paris, that Granada was about to bid for Accor, the French hotel chain, was said by analysts to be the reason the shares slipped 10 to 882 1/2p, despite results at the top of forecasts. The rumours were scotched by Granada, which said they were completely untrue.

Mr Jason Crisp, an analyst at SCOT, said that Granada was not only firing on all cylinders, but it was upbeat on its prospects and it appeared that sales of assets would proceed comfortably.

EMI Group strengthened 10 1/2 to 130 1/2p following favourable media comment on the company's maiden interim results, revealed on Tuesday.

Courtaulds fell 4 to 420p as enthusiasm about the dividend was undermined by figures at the low end of forecasts. The chemicals group announced an interim profit of 254m against a forecast range of between 254m and 270m. Brokers were reducing full-year forecasts by 15m to 220m.

Sontheams gained 14 to 461 1/2p - a new high - after the company posted a 36 per cent rise in first-half profits and said it expected the improvement to continue through the rest of the year. The Southwains figures helped United News & Media to rise 1 1/2 to 69 1/2p.

BSkyB improved 7 1/2 to 526p after Granada said it intended to retain its 10.8 per cent stake in the satellite television operator.

Capital Radio improved 16 to 561 1/2p after Henderson Financial Management

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFTS) table with columns for Open, Settle, Change, High, Low, Est. vol, and Open int.

FTSE 250 INDEX FUTURES (LIFTS) table with columns for Open, Settle, Change, High, Low, Est. vol, and Open int.

FTSE 100 INDEX OPTION (LIFTS) table with columns for Call and Put prices for various strike prices.

FTSE 100 INDEX OPTION (LIFTS) table with columns for Call and Put prices for various strike prices.

EURO STYLE FTSE 100 INDEX OPTION (LIFTS) table with columns for Call and Put prices for various strike prices.

EURO STYLE FTSE 100 INDEX OPTION (LIFTS) table with columns for Call and Put prices for various strike prices.

LONDON RECENT ISSUES: EQUITIES

Table listing recent equity issues in London, including company names, issue amounts, and prices.

FT GOLD MINES INDEX

Table showing the FT Gold Mines Index with columns for New, High, Low, and other metrics.

FTSE Actuaries Share Indices

Table showing FTSE Actuaries Share Indices with columns for Day's change, Nov 19, Nov 18, Nov 15, Nov 12, Nov 9, Nov 6, Nov 3, and Total Return.

FTSE Actuaries Industry Sectors

Table showing FTSE Actuaries Industry Sectors with columns for Day's change, Nov 19, Nov 18, Nov 15, Nov 12, Nov 9, Nov 6, Nov 3, and Total Return.

Hourly movements

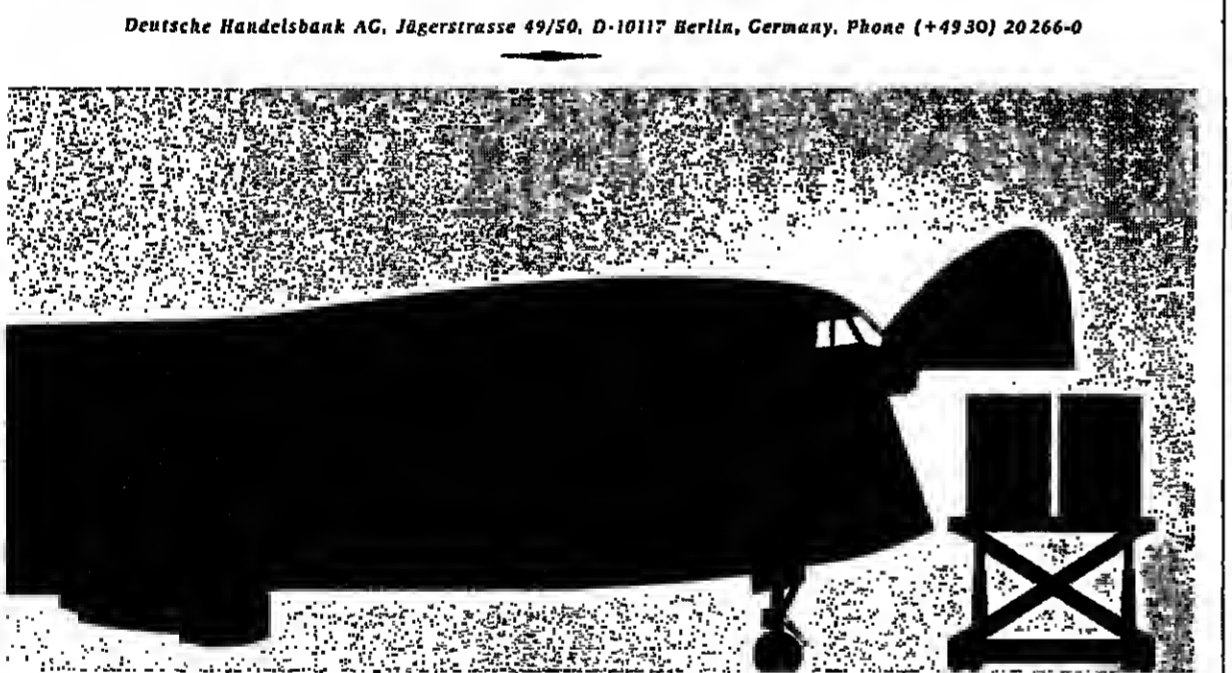
Table showing hourly movements for FTSE 100, FTSE 250, and FTSE 350.

FTSE 350 Industry baskets

Table showing FTSE 350 Industry baskets with columns for Open, High, Low, Close, and Previous Change.

TRADING VOLUME

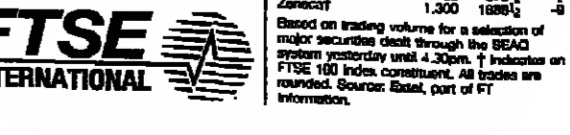
Table showing trading volume for major stocks yesterday, including company names and volume in millions.



DEUTSCHE HANDELSBANK AG MADE FOR TRADE.

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EUROPE

Table listing stock market data for various European countries including Austria, Belgium, Denmark, France, Germany, Italy, and the Netherlands. Columns include country, date, and various market indicators.

ASIA

Table listing stock market data for Asian countries including Hong Kong, Japan, Korea, and Taiwan. Columns include country, date, and various market indicators.

PACIFIC

Table listing stock market data for Pacific countries including Australia, New Zealand, and South Africa. Columns include country, date, and various market indicators.

AFRICA

Table listing stock market data for African countries including South Africa. Columns include country, date, and various market indicators.

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Table listing stock market data for European countries including Greece, Ireland, and the UK. Columns include country, date, and various market indicators.

Table listing stock market data for Pacific countries including Canada and the US. Columns include country, date, and various market indicators.

Table listing stock market data for African countries including South Africa. Columns include country, date, and various market indicators.

Table listing stock market data for European countries including Spain, Portugal, and Switzerland. Columns include country, date, and various market indicators.

Table listing stock market data for Asian countries including India, Singapore, and Thailand. Columns include country, date, and various market indicators.

Table listing stock market data for Pacific countries including New Zealand and South Africa. Columns include country, date, and various market indicators.

Table listing stock market data for African countries including South Africa. Columns include country, date, and various market indicators.

INDICES

Table showing index values for various regions including Argentina, Australia, Canada, Denmark, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, UK, and USA.

US INDICES

Table showing US index values including Dow Jones, S & P 500, and NYSE Active Stocks. Includes columns for date, high, low, and change.

AFRICA

Table showing stock market data for African countries including South Africa. Columns include country, date, and various market indicators.

NORTH AMERICA

Table showing stock market data for North American countries including Canada and the US. Columns include country, date, and various market indicators.

INDEX FUTURES

Table showing index futures data for various regions including CAC-40, DAX, and S&P 500. Columns include contract, price, change, and volume.

US INDEXES

Table showing US index futures data including Dow Jones, S & P 500, and NYSE Active Stocks. Columns include contract, price, change, and volume.

AFRICA

Table showing stock market data for African countries including South Africa. Columns include country, date, and various market indicators.

NORTH AMERICA

Table showing stock market data for North American countries including Canada and the US. Columns include country, date, and various market indicators.

4 PM Close November 20

NEW YORK STOCK EXCHANGE PRICES

Main table of stock prices with columns for stock symbols, prices, and changes. Includes sub-sections for 'NEW YORK STOCK EXCHANGE PRICES', 'NASDAQ LISTED STOCKS', and 'NASDAQ LISTED STOCKS'.

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Continued on next page

NYSE PRICES

NASDAQ NATIONAL MARKET

Table of NYSE stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'Continued from previous page', 'V', 'W', 'X-Y-Z', and 'FT Five Annual Reports Service'.

Table of NASDAQ National Market stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'Continued from previous page', 'L', 'S', 'M', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z', and 'FT Five Annual Reports Service'.

AMEX PRICES

Table of AMEX stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'Continued from previous page', 'A', 'B', 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z', and 'FT Five Annual Reports Service'.

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Tech stocks drive fresh gains in Dow

AMERICAS

Even a modest decline in US Treasury prices could not divert shares from their record-breaking path as the Dow Jones Industrial Average raked up its 12th gain of the past 13 sessions...

EUROPE

Inflationary fears, lower bond prices and weakness in the dollar put pressure on senior bourses in spite of Wall Street's strength...

ASIA PACIFIC

Wall Street's overnight gains and a bounce for BHP took Sydney to an all-time high...

AFRICA

Industrial shares in Johannesburg stayed weak, but golds recovered smartly under the influence of a perkier bullion price...

FTSE Actuarial Share Indices

Table with columns for Nov 20, Nov 19, Nov 18, Nov 15, Nov 14, Nov 13. Rows include FTSE Actuarial 100, FTSE Actuarial 200, FTSE Actuarial 300.

THE EUROPEAN SERIES

Table with columns for Nov 19, Nov 18, Nov 15, Nov 14, Nov 13. Rows include FTSE Europe 100, FTSE Europe 200, FTSE Europe 300.

STOCKS

Hennes & Mauritz after the retailer said it would open its first store in France, in the Paris Rue de Rivoli...

S Africa golds firmer, industrials weak

Industrial shares in Johannesburg stayed weak, but golds recovered smartly under the influence of a perkier bullion price...

ASIA PACIFIC

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EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Table with columns for Market, No. of November 15 stocks, Dollar terms, Local currency terms. Rows include Latin America, Asia, Europe, Africa, etc.

China's hard currency B shares, traded in Shenzhen and Shanghai, took another leap yesterday, as rumours suggesting that the government planned measures to support the markets continued to do the rounds...

ASIA PACIFIC

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STOCKS

Hennes & Mauritz after the retailer said it would open its first store in France, in the Paris Rue de Rivoli...

FT/S&P ACTUARIAL WORLD INDICES

Table with columns for REGIONAL AND NATIONAL MARKETS, US, FTSE, S&P, etc. Rows include Australia, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Philippines, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, United Kingdom, USA, etc.

ASIA PACIFIC

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THE EUROPEAN SERIES

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PORTUGAL

An unexpected sense of confidence prevails

The Socialist government is settled and the country is within sight of meeting monetary union criteria, write David White and Peter Wise

To a degree unsuspected by anyone, and least of all the Portuguese themselves, Portugal seems to have been seized by a new sense of confidence. The country's habit of self-deprecation has been misleading. In both its politics and economy, it has outperformed most expectations.

A year into its new Socialist government, Portugal is more settled politically than might have been predicted, and at the same time closer to the economic targets for Europe's monetary union (EMU) than would generally have been thought plausible.

The business mood is improving, and some economists believe Portugal - for all its vulnerable points - may be about to enjoy its best year since the late 1980s, before the new-found euphoria associated with EU membership was soured by recession.

In all its time in the EU, Portugal had kept the same prime minister, a new experience after the turbulent politics of its previous decade of rediscovered democracy. It seemed likely that, after Anibal Cavaco Silva, Portugal would be in for a less stable phase. His Socialist successor, Antonio Guterres, came four seats short of a parliamentary majority at the election in October last year, and it looked as if the need for a tough budget this autumn could cause serious problems. But opinion surveys say Mr Guterres would get his majority now if he went to the polls - something that, in the run up to the European single currency, he has no wish, and no reason, to do.

The centre-right Social Democrats, now in opposition, are not inclined to upset the apple cart, and are set to allow the crucial 1997 budget to pass by abstaining.

Unlike the much smaller conservative Popular Party to its right, or the Communists, they are strongly in favour of Portugal's aspirations to being part of EMU, and, after 17 years as a government party and 10 ruling on its own, the party badly needs to re-charge its batteries. It has been battered by successive defeats in local, European, parliamentary and presidential elections, and most recently in regional elections in its once-impregnable fortress of the Azores.

Since a recent party conference, Marcelo Rebelo de Sousa, an engaging and wealthy lawyer who combats being opposition chief with giving classes in political science to university students, appears more solidly in charge than when he was chosen as leader eight months ago.

He knows there is little early prospect of toppling the articulate Mr Guterres, hating a serious upset - such as Portugal being left out in the cold in the decision on the single currency. After next year, however, he could possibly try to form a new centre-conservative alliance on his own terms, counting on the weakness of a Popular Party sapped by a leadership struggle. This would not make a majority, but could be capable of forcing elections before they fall due in 1998.

Before that, however, Portugal will know its fate as far as EMU is concerned. Its

aim of joining the first group of single currency countries - important symbolically for a country that worries about being on the periphery of Europe, and practically in terms of its investment climate - was widely treated until recently as far-fetched. But sceptics have come around to believing Portugal can qualify to join either at the outset or shortly after. Its technical case is arguably the most convincing of any southern EU member.

"We're not running a last-minute race," says Mr Guterres, acknowledging his predecessor's commitment to the targets.

Portugal is not far from any of the criteria. Inflation, although exposed to changes in energy prices, has been falling steadily for several years. The deficit has been solid. Public debt, as a proportion of national output, is higher than the prescribed level, but is coming down as a result of an active privatisation programme and is lower than, say, the Netherlands or Austria's. The public sector deficit has repeatedly performed better than planned. This year it is now expected to come out at 4 per cent of GDP, below the 4.2 per cent forecast. Next year's is set in the budget at 2.8 per cent, inside the Maastricht target. It has been possible to do this without tough measures such as freezing civil servants' salaries, and without increasing tax rates - but principally by collecting more tax.

The Bank of Portugal sees the only risk of slippage coming from debt-servicing charges or spending on social and unemployment benefits. But interest rates have been moving downwards, and unemployment has been holding steady at about 7 per cent.

"We can be the surprise of the single currency," proclaims Augusto Mateus,

economy minister. The government maintains it could join even if Spain were held out, but is clearly crossing its fingers, hoping the Iberian countries will make the grade together. It sees no interest in delaying either the launch of the euro or Portugal's entry. Its nightmare is that, outside the euro, rising interest rates could carry it further away from the targets, budget control would become harder, and public opinion might start turning against the whole idea.

Growth, in spite of a recently sluggish trend among Portugal's main export customers, is expected to rise to over 2.8 per cent this year and come close to the 3 per cent hoped for by the government next year. Mr Mateus says the country has enough reserve for growth to keep ahead of the EU average and catch up with income levels in the rest of the Union by the end of the first quarter of the next century.

However, this is not to underestimate the challenge for Portugal, losing ground in competitiveness in recent years and standing to suffer heavily from the further enlargement of the EU, especially in crucial export industries such as textiles.

"All our enterprises are faced with an adjustment in dimension," Mr Mateus warns. Today, Portugal has the EU's lowest manufacturing wages in the future, it will face the same problem from central and eastern Europe that it has posed up to now for other EU countries.

Whatever the difficulties of competing within a single-currency bloc, Mr Guterres has no doubts: "It will be easier inside than outside." He sees the budgetary consolidation imposed by Maastricht as providing the best environment for his



General information

Head of State: President Jorge Sampaio

Legal system: Legal system: Courts are autonomous, bound only to established law and to the demands of the constitution. They are generally noted for their adherence to traditional principles of independent jurisprudence, but inefficient. Bureaucratic organisation has created serious overloading in the system.

Climate: Climate: Portugal has a benign climate with mild winters and long, hot summers. The mountainous region of the north-east experiences snow and heavier rainfall in the winters. Average daily temperatures range from 8C to 18C in winter and from 18C to 26C in summer. Madeira has a sub-tropical climate, and the Azores experience damp, rainy winters and hazy summers.

Language: Portuguese. English is spoken by many, including most businessmen.

National assembly: Socialist party 115 seats, PSD (centre-right) 89 seats, CDUPP (centre-right) 16 seats, CDU (centre-right) 15 seats, Total 235 seats

Population: 10,780,000 (1995)

International organisations: Member of EFTA, 1984-86; joined European Community (EC), now European Union, January 1 1986. Adheres to the General Agreement of Trade and Tariffs (GATT), a commonwealth of the world's seven Portuguese-speaking countries (CPLP) was launched in 1986. Portugal has a relatively close relationship with Great Britain and is the headquarters of the Association of Portuguese Speaking States (APALPS). Member of the United Nations and a founding member of NATO.

Economic summary

	1995	1996 (f)
Total GDP (\$ billion)	100.8	108.3
Real GDP growth (annual % change)	1.9	2.5
GDP per head (\$)	10,780	11,025
Inflation (annual av. % change in CPI)	4.1	3.1
Industrial output (annual % change)	4.8	2.2
Unemployment rate (% of workforce)	7.2	7.3
Interest rate (injection rate, % end-year)	8.5	8.75
Money supply, M3 (annual % change)	7.3	8.4
Foreign exchange reserves (\$bn)	21.7	22.0
Government spending (% of GDP)	49.8	49.5
Government balance (% of GDP)	-8.2	-4.5
Government debt (% of GDP)	71.8	73.5
Current account balance (\$bn)	-1.5	-1.5
Exchange rate (Esc per \$, end-year)	149.4	149.2
Exports (\$bn)	22.8	23.5
Imports (\$bn)	24.3	25.0
Trade balance (\$bn)	-1.5	-1.5

Main exports 1994 (% of EU total)

Clothing	18.0%
Machinery & electrical	17.0%
Footwear	8.0%
Textiles	7.2%
Paper	6.4%
Transport goods	6.1%

Main imports 1994 (% of EU total)

Machinery & electrical	20.7%
Transport equipment	17.0%
Chemicals	9.2%
Agriculture	8.1%
Textiles	7.8%

Leading markets 1994

Market	% of exports	Leading suppliers
Germany	18.7%	Germany 18.0%
France	14.8%	France 18.0%
Spain	11.4%	Spain 18.0%
UK	10.8%	UK 7.9%
EU	75.9%	EU 72.1%

long-term project, thorough welfare reform, offering greater protection for the neediest sectors of the population.

While aspiring to keep up with the European vanguard, much of the country lags in development in some obvious ways.

Portugal is like its postal system, with pillar-boxes of different colours, blue for next-day delivery, red for normal service. It is a country only about 100 miles wide but where people still talk of "the interior". Tele-

communications are up-to-date, but not railways or secondary roads. It is a place where you can pay for your coffee with an "electronic purse" card, but where one person in eight would be unable to read the instructions.

Employers see an urgent need to raise levels of education and training. "Portugal is reasonably well-equipped in its hardware," Mr Ludgero Marques, president of the Oporto Industrial Association, puts it, "but with problems in its software."

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2 PORTUGAL

The economy • by Peter Wise

Challenges in Europe

Competitiveness is a cause for concern as Portugal sets its targets

Economists and politicians, confident that Portugal will comply with the Maastricht criteria for European monetary union (Emu) next year, are turning their attention to how the country will compete in an expanded European Union after the planned launch of the single currency in 1999.

"Meeting the Emu criteria is like joining shuttles in space - everybody has to be in the same place travelling at the same speed," says Augusto Mateus, the economy minister. "But it is only the beginning of a process for achieving our ultimate goal of improving competitiveness."

He is convinced that Portugal, where gross domestic product is below 65 per cent of the average EU level, can catch up with average European levels of output and income in 25 to 30 years. What he says would take 80 years at normal rates of growth can be achieved "in a generation" with the right outlook and policies.

By then, Portugal would be "a modern, competitive economy at the centre of a new Europe, not a peripheral country". He believes development of poor, non-industrial regions can add 1 percentage point a year to GDP growth, already forecast at above the EU average to 1999. But the main drive for growth should come from "a new approach to competitiveness".

The challenge is worthy of the approaching millennium. Portugal fell from 18th position in 1993 to 20th this year in the world ranking of competitiveness drawn up by the World Economic Forum and IMD, a leading Swiss management school. It was overtaken by Spain, Italy, Turkey and, most important-

ly, by the Czech Republic. "It is a cause of concern for Portugal that the competitiveness of the Czech Republic, Poland and Hungary has improved so remarkably," says Miguel Namorado Rosa, an economist with Banco Comercial Português. "Czech wage costs are one quarter of those in Portugal, the country is next to Germany, infrastructure is better, and the workers are skilled high school graduates who speak English and German."

At the same time as the EU expands to include these increasingly competitive central European countries, EU funds to Portugal, an important resource for modernisation, are diminishing. Net EU transfers to Portugal reached a peak of E622.4bn in 1996, about 3.8 per cent of GDP, but will fall to E546.7bn in 1997 and probably drop substantially after 1999. The country's prospects for economic growth, while remaining above the EU average, are much slower after 1999, says Mr Namorado Rosa.

Although the degree of confidence in the future varies, there is almost unanimous belief in Portugal that it will be easier to accelerate growth and improve competitiveness inside the single currency rather than out. "Participating in Emu will help lower interest rates and inflation, making reform easier," says António Guterres, the premier.

Consensus is also growing that Portugal will achieve the government aim of joining the euro from the start. Inflation, which has been falling by about 1 percentage point a year for the past five years, is forecast to drop below 2.5 per cent in 1997. Public debt is projected at 68 per cent of GDP next year, higher than the Emu goal of 60 per cent, but fulfilling the condition of following a downward trend and bettered by only five other EU members.

The escudo, stable for



Augusto Mateus: meeting criteria is just the beginning of a process

more than two years, has gained more than 2 per cent on the D-Mark over the past six months. Interest rates have been consistently within the Maastricht criteria since last April, and the differential with German rates on 10-year bonds has fallen from 520 basis points in early 1995 to about 165 points currently. The 1997 budget trims the government deficit to 2.9 per cent of GDP, below the Emu objective of 3 per cent, from an expected 4 per cent this year.

"We have been approaching the Maastricht targets in a very sustainable way," says António de Sousa, the governor of the Bank of Portugal. "Portugal's strategy is not only to comply with the criteria in 1997 but to continue complying with them." The country hopes to win admission to Emu in what is expected to be an exceptional year. "1997 is probably going to be a golden year for the Portuguese economy, the best since the late 1890s," says Mr Namorado Rosa. "We expect GDP to expand strongly, but there will be no inflationary pressure."

GDP growth is forecast to reach 3 per cent next year from a government estimate of 2.8 per cent in 1996. The upswing in economic activity is occurring against a background of stable prices, lower interest rates, and exchange rate stability. Unemployment is expected to fall slightly in 1997, from a current level of just over 7 per cent, amid signs of an increase in business confidence.

A favourable decision on Emu and strong economic growth are the foundation that the government needs

to push further ahead with plans for what Mr Mateus calls "structural convergence", a comprehensive change in the way Portuguese companies compete.

Low inflation is to be achieved through improved productivity and the lower interest rates that result from international credibility, he says, rather than a policy of overvaluing the escudo that he attributes to the previous centre government. He blames this for an increase in unemployment and the substitution of Portuguese production by imports.

Quick response, high quality and low costs are the watchwords of the new competitiveness. Mergers and acquisitions to produce bigger companies are to be encouraged by tax benefits. Incentives will be targeted at foreign investors that can add value to Portuguese industry by achieving a "good match between skills, productivity and wage costs" rather than companies simply seeking low salaries.

Companies will also be encouraged by incentives to look outwards. Portuguese groups should begin investing in production plants and commercial networks abroad and selling their technology to foreign companies, says Mr Mateus.

He also wants to build a new consensus between the state and private initiative on the way forward, with public investment being focused on infrastructure and private spending on more direct, productive means of improving competitiveness. "We should be working in partnership, not back to back," he says.

Stock market • by Peter Wise

Cement is a big seller in Portugal, both by the truckload and on the stock market. Because of infrastructure building, more is consumed per capita than in any other European country - and when 45 per cent of Cimpor, the biggest producer, was privatised in October, more than 86,000 individuals, a Portuguese record, applied for shares.

This success for what the Socialist government likes to call democratic ownership, a policy begun by the previous centre-right administration under the title of popular capitalism, is helping to drive the Lisbon stock market to records high for share price increases, turnover, and capitalisation.

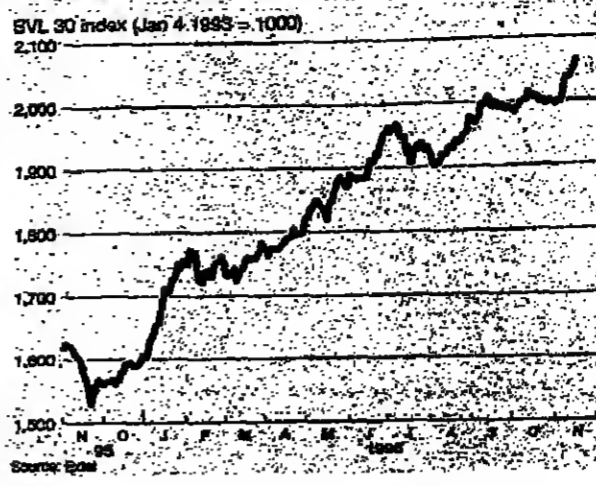
By the time the BVL-90 index reached a new all-time high this month, the market had gained more than 26 per cent since the beginning of the year, making Lisbon share prices the third fastest-growing in the European Union this year. Market capitalisation - more than \$11bn at the end of September - is showing the second fastest growth in the EU. Turnover increased by 39 per cent to \$4.5bn in the first three-quarters.

In mid-1996, HSBC Capel estimated the average price/earnings ratio (PER) for the Portuguese market at 12.8, compared with 18.1 in Spain. It forecast a 1997 PER of 10.8 for Portugal and 11.5 for Spain. It put Lisbon's average earnings per share growth at 1.1 per cent in 1996, down from 26.1 per cent in 1995, and forecast a 17.9 per cent increase in 1997.

Secondary global offerings of Cimpor and Portugal Telecom this year set new records for investor demand, raising E\$116.5bn and E\$147.1bn respectively. Overall, Portugal's privatisation programme is expected to raise E\$400bn in 1996 and a similar amount in 1997, when 25 to 30 per cent of Electricidade de Portugal, the national power utility, is to be sold in the country's biggest privatisation to date.

"The privatisation programme, carried out mostly through the stock exchange, has played an important role in the growth of market capitalisation and in the

Portugal SE



Impressive growth - by any name

Privatisation programme is adding to the list of attractions for foreign investors

diversification of the biggest listed companies," says José Carlos Pestana Teixeira, chief executive of the Lisbon stock exchange (BVL). "Liquidity is growing strongly as a result of an increase in turnover at more than twice the rate of growth of market capitalisation."

New foreign investors are being attracted to Portugal by the sell-offs. Net portfolio investment rose to E\$840bn in the first half of 1996 from only E\$49.5bn in same period last year; E\$477bn of this, in net terms, was invested in shares. The huge jump is partly explained by the turbulence of international currency markets in early 1995, but it also reflects a strong growth in overseas interest in the Lisbon market.

Portugal is on the road to changing from an emerging to a developed market, offering the high growth of the former with the low risk of the latter. But it is limited by a lack of liquidity, relatively small market capitalisation, and a daily trading

volume of below \$25m in the first part of 1996, despite being 55 per cent higher than in the corresponding period last year.

Lisbon is yet to make the transition from the listings of emerging market indices to the main European or world market listings, a position that could be reconsidered if and when Portugal joins the single European currency.

"There is a vicious circle in the Portuguese market in that low trading volumes inhibit greater interest from abroad," says Scott Beaumont, an analyst with HSBC James Capel.

He says domestic demand has been limited by prohibitive trading rates for retail investors, underdeveloped mutual funds (unit trusts) that hold a limited weighting in equity, and a private pension fund system that is still in the embryonic stage.

But there are positive signs. The government is to lower the commissions charged on small retail trading and has been offering significant discounts to

retail investors in privatisation offerings in an effort to encourage greater equity holdings on a national level.

More importantly, Portugal's big banks are beginning to build up their mutual fund base as a means of increasing income as net interest margins - the difference between the rates at which banks raise and lend funds - fall. Greater investment in equity by these funds, both in volume and as a percentage of total funds under management, is expected.

In the long term, Portugal will also be forced to embrace an extensive private pension system, says Mr Beaumont. The current unfunded government liability is estimated to be about 160 per cent of gross domestic product, compared with about 70 per cent of GDP in the UK, for example. Private pension plans and Portugal's fast-growing life insurance sector should contribute to a greater contribution to equity investment from the pension market.

Privatisation of industrial companies and utilities has ended the dominance of the Lisbon market by the financial sector, increasing the number of investment opportunities. Initial public offerings of Portugal Telecom, one Europe's biggest paper pulp companies, and Portugal Telecom in 1995 contributed to reducing the weight of the banking sector in the market from 41 per cent in 1994 to 33 per cent at the end of 1995.

Four years ago, the weight of the financial sector was in excess of 60 per cent. Recent and forthcoming equity issues will contribute to a further reduction of the importance of the financial sector and a balanced market structure that more accurately reflects the underlying economy.

Private-sector offerings are also contributing to growth. A global offering of Telecel, a fast-growing mobile telephone operator, in what will be Portugal's biggest private initial public offer to date, is expected to attract strong interest. "It would be difficult to find a more impressive growth story in Europe than Telecel," says one analyst.

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Politics • by Peter Wise

Emblem change has the scent of success

The Socialist party is sitting comfortably after a rewarding first year in office

Portugal's Socialists used to raise clenched fists at political rallies and chant "Down with capitalism!" Today, they are more likely to wave pink roses and applaud proposals for privatising power and telephone companies.

Changing their emblem from a fist to a flower was symbolic of a transformation that helped the Socialists win a general election in October 1995.

The rose expressed the abandonment of a Marxist-inspired ideology adopted after the collapse of the authoritarian Salazar-Caetano regime in 1974 - for pragmatic, social democratic policies more suited to a market economy committed to the European Union.

Antonio Guterres, chief architect of the Socialist party's renewal, has been reaping ample rewards from the change during his first year as prime minister. His government, both popular and tactically successful, is blooming.

Opinion polls indicate that the Socialists would comfortably win an overall majority if an early election were called. In regional elections in October, they defeated the centre-right Social Democrats (PSD), the main opposition party. In the Azores for the first time since the islands were made an autonomous region of Portugal in 1976.

Mr Guterres has won support with a simple message: greater social spending is not incompatible with the fiscal consolidation required to ensure Portugal participates in the first phase of European monetary union (Emu) - a goal that polls show to be shared by an overwhelming majority of voters. Nor are tax increases required, he says.

Adopting the European currency from the outset is as important to Portugal today as joining what was then the European Community in 1986, according to Mr Guterres. "We want Portugal at the political centre of Europe, where the decisions are made, not out on the edge, where they have to be obeyed," he told parliament recently.

Dialogue, consensus and conciliation, the central themes of Mr Guterres' government, are pleasing voters who had wearied of the discipline, rigour and authority given prominence by the previous PSD government led by Mr Anibal Cavaco Silva, prime minister for a decade until the Socialists' victory. For a minority government, they are also more pragmatic ideals.

Voters have also been wooed by popular measures such as the abolition of some motorway tolls, a temporary freezing of university fees, and the halting out of a car plant threatened with closure. Opponents say these are mere quick-fix measures that expose the government's reluctance to grasp more thorny issues, including pledges of sweeping reforms in education, social security and taxation.

But Mr Guterres acknowledges a short-term and a long-term agenda for social reform. "We have given priority in the budget to investment and social programmes, particularly education," he says. "But over the next decade we will have to finance a transition to a new welfare system. Being part of the single currency, meaning lower interest rates and lower inflation, is the best environment for that reform."

Although the Socialists are four seats short of an overall majority in parliament, they have suffered no important defeats over legislation. Approval of the 1997 budget, aimed at meeting the Maastricht criteria for Emu, was secured this

PROFILE Antonio Guterres, prime minister

Citizen Guterres walks tall

Citizen Kane is a favourite film of Antonio Guterres, a lifelong cinema-lover who stepped into Portugal's leading government role when he took office as prime minister a year ago.

As much as the political drama depicting the downfall of an ambitious newspaper tycoon, it is the innovative use of sound and camera techniques by Orson Welles, the film's director, that he enjoys.

In introducing market-oriented socialism to Portugal, Mr Guterres, 47, is an innovator whose work is so far being given a better reception than Welles' film, which was out a commercial success when it appeared in 1941.

Opinion polls show his popularity to have increased since the Socialist party won a general

election in October 1995, and the country warms to his tolerant, socially-concerned approach to problems.

His commitment to Portugal's participation in the first phase of European monetary union means that the Socialist's economic policies, focused on budgetary restraint and low inflation, are little changed from those of the previous centre-right government.

But Mr Guterres has introduced a social dimension to the need for financial discipline. This has found favour with voters, who have not yet grown impatient for the improvements in living standards, education, health services, welfare and other areas that he has promised.

"I think that the fact that

we have been able to combine fiscal consolidation with the proof that we are aware of social problems, rather than denying their existence, helps people to accept the financial constraints required to join the single European currency," he says.

The centre-right Social Democrats, the main opposition party, say a number of the government's measures may not imply heavy financial costs immediately, but will make it difficult to sustain control of the budget deficit over the long term.

They include the introduction of a guaranteed minimum income for the poor, changes in teachers' career structures and pay, schemes to rescue bankrupt companies, and plans to

create a system of regional administrations.

Mr Guterres believes such measures cannot be ignored or delayed. "Nothing is easy in today's world, that's why governments sometimes lose elections," he says.

"The big question, in Portugal and Europe in general, is how to make fighting social exclusion the priority of our welfare systems," he says. "This means a much higher degree of selectivity (in welfare provision). That kind of reform is not always easy to sell to public opinion."

His social concern is rooted in religious faith. He is a practising Catholic who undertook social work in shanty towns as a youth and then chose politics rather than the priesthood as a way of helping the poor and excluded.



Antonio Guterres

Mr Guterres hopes to keep the country with him in his fight against poverty and social exclusion. Alluding to Citizen Kane, he has said that a certain degree of solitude cannot be avoided by those who exercise power. "But I try to be alone as little as possible."

Peter Wise

PROFILE Marcelo Rebelo de Sousa, opposition leader

A suitable case for study...

As a professor of political theory, Marcelo Rebelo de Sousa assured his students a rich supply of case studies when he was elected leader of Portugal's centre-right Social Democrats (PSD) last March.

One of the lectures he might give at Lisbon University's law faculty could focus on how a tenacious party leader, starting from an unenviable position, can outstay his critics and overturn dismissive forecasts of a short-lived, inconsequential career.

It is not yet certain whether he will himself provide a perfect example, but the odds appear to be turning in his favour.

Critics, both inside and outside the PSD, who had labelled him too mercurial, too disordered, too out of touch with the common man, had fallen silent by

October, when he called an extraordinary party congress that expressed overwhelming support for his leadership.

Mr Rebel de Sousa, 47, has given himself the mission of adapting the PSD to opposition after 14 years in government and to nurturing a younger generation to renew the party leadership. He has adopted a simpler, more direct style for the role, acknowledging that previously "a lot of people didn't understand what I was saying".

Jorge Sampaio, Portugal's Socialist president, has helped him assert authority by respectful treatment as leader of the opposition. Mr Rebelo de Sousa, a man of great charm, counts the president among his many old friends. He and Antonio Guterres, the prime minister - now the rival

protagonists of Portugal's main political battles - also began a close friendship when they worked together in Catholic youth movements.

Taking on the PSD leadership was, perhaps, one of the most generous acts of a man known for his unstinting generosity. Few coveted the job. The party had been adrift without effective leadership since its defeat by the Socialists in a general election five months earlier.

All the senior figures who came to prominence during a decade of government under Anibal Cavaco Silva, the former prime minister and party leader, were holding their ambitions in check, shying away from trying to win back the popularity that the PSD lost amid allegations of patronage, arrogance and inefficiency.

Mr Rebelo de Sousa, 47, did not serve under Mr Cavaco Silva, an advantage in the current political climate, and his only foray into active politics over the past decade was an unsuccessful bid to be elected mayor of Lisbon, when he famously dived into the Tagus river to show it was not polluted.

After a brief spell as a parliamentary affairs minister in the early 1980s, he had pursued a career as a lawyer and academic, becoming one of Portugal's leading political commentators, best known for giving politicians marks out of 20 in a popular weekly radio show.

He says he will give himself a pass mark if the PSD wins back a majority of town councils in next year's local elections. He would then be in a position to fight the next general election,



Marcelo Rebelo de Sousa

due in 1999, as a candidate for prime minister.

Should he fail and lose his hold over the PSD, José Manuel Durão Barroso, a former foreign minister now pursuing an academic career at Georgetown University in Washington, is tipped as the man most likely to take over the professorship of the party.

Peter Wise

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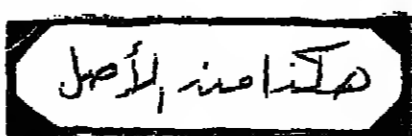
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4 PORTUGAL

The regions: Oporto • by David White

Northern workhorse

The industrial heartland believes it still gets a raw deal compared with Lisbon

Better communications have lessened the impact of the 300 kilometres separating Lisbon from Oporto. But, after a decade of regional funds pouring in from the European Union, the imbalance between Portugal's two main population centres remains.

The northern industrial heartland, the argument goes in Oporto, is a net contributor of wealth to the rest of the country. At the same time, it has received less than its share of investment in hospitals, universities and other public services, and its average income is about two-thirds that of the Lisbon region.

Oporto is the hub of Portugal's small-business sector. Northerners, individualistic and thrifty, see themselves as more enterprising, energetic and serious than people in the capital. Theirs is the place where real business is done, far from the frivolities of politics. A saying has it that: Braga prays, Coimbra studies, Oporto works, Lisbon sings.

The north's role as motor of the private sector was reinforced after the 1974 revolution and the nationalisations that followed. While big southern businessmen were away in exile, new groups such as the Sonae retail and industrial concern emerged in the north. When conditions were relaxed, Oporto was the city where the first new investment and commercial banks were established, backed by northern money.

But much of this banking base has since shifted down to Lisbon. Privatisation has strengthened the capital's position as a financial centre. The mainstay export industries of the north, such as textiles and shoes, meanwhile face a hard race to modernise as trade barriers come down.

Oporto's century-old stock

market stopped trading in mid-1994, its business being transferred to Lisbon. In exchange, the northern city got Portugal's new derivatives market, inaugurated after some delay in June this year. Its main activity in interest-rate futures is already under threat from the prospect of a European single-currency zone embracing Portugal.

"Things will change," admits Manuel Alves Monteiro, the exchange's managing director. "The challenge will be to provide the banking sector with new services and identify new products."

The exchange has brought some benefits to the city, he says, including a Capital Markets Institute for training executives. Many of the courses actually take place in Lisbon. But he argues that if, on the contrary, the markets were based in the capital, none of the training would go anywhere else.

Ludgero Marques, presi-

dent of the Oporto industrial Association (AIP), a venerable body dating from 1945, says the region is producing a "new and more modern class of businessmen", but is hampered by low levels of qualification and deficient infrastructure. Siemens' Es78bn memory-chip plant, being built near Vila do Conde, north of Oporto, will bring new skills but only in very specialised areas, he says. The region needs more laboratories and industry-university collaboration. Although it has been accessible by motorway since 1991, it also needs better secondary roads, dock and airport facilities.

"How can we have industries in areas where it's difficult to get big trucks to?" he asks. "Or where there is no good school?" Lisbon, he says, must open up and stop hogging everything.

"Nothing has been accomplished by EU funds to decrease regional dispari-

ties," says Pedro Arroja, an economics professor at Lisbon's Autonomous University. He says that, over the past 10 years, neither the north nor the southern Algarve region has narrowed the gap with the Lisbon area in gross domestic product per capita, while the centre and Alentejo regions are lagging even further behind.

He calculates that the north makes a net transfer of E500bn annually to the south. This comes mainly from public services which the north should be receiving and does not. He has calculated it gets 29 per cent of the total, although it has 37 per cent of the population. The remaining E150m, he says, stems from its tax contribution: 33 per cent of the national total, compared with the region's 30 per cent share of Portuguese GDP.

"This fiscal transfer is the most important factor explaining the big difference in standards of living, and why the GDP per capita gap has not decreased," he says.

The case for more regional decision-making muscle has a champion in Fernando Gomes, Oporto's ambitious Socialist mayor. The north has become an important base for the Socialists as well as the centre-right Socialist Democrats, who have seen their position erode.

Widely respected locally, Mr Gomes preferred to stay at his post rather than join the Socialist cabinet after last year's election.

Oporto, for all its grievances, is a proud place. Among its institutions is FC Porto, Portugal's reigning football league champions, a club with a particular mystique, a membership of 100,000, a waiting list to join, and a stadium which is one-third sold in advance for the whole season. It also has the country's largest-selling daily newspaper, the *Jornal de Notícias*, with nationwide circulation of about 80,000.

Although many say Oporto has outgrown its conservative image, change does not always go down easily in the region, with its overwhelming preponderance of family businesses and small landholdings. Cobwebs from the past sometimes clog its bureaucracy - such as the impenetrable wall that the city hall calls its press office.

A symbol of modernisation is the new rail bridge spanning the Douro, taking over from Eiffel's 1897 landmark. A competition is open for a 60-km metro system for the urban area, which has a population of well over 1m. Change is less apparent in the city centre, still delightfully down-at-heel, than the modern business district stretching towards the ocean to the west. That is where the new derivatives exchange has set up, abandoning the space the stock market used to rent from the Commercial Association in the neo-classical *Palácio da Bolsa* - now left as a monument to Oporto's merchant tradition.

Peter Wise



The riverside at Oporto

PROFILE Planet, office services megastores

Entrepreneurs set worldwide target

Three young business graduates, who began three years ago with a photocopying and desktop publishing shop in Lisbon, have developed an innovative office services concept that will shortly lead to the launch of what is believed to be the world's first chain of document and imaging megastores.

Their company, Planet, starting from the basic idea of photocopying, aims to do for computer-based graphics, text and photography what Richard Branson's Virgin Group, which began by selling records, has done for entertainment media.

"We soon realised we had something unique worldwide and that Europe was a completely open market," says Pascal Monteiro de Barros, 32, one of the partners, two Portuguese and one American, who met in the US as MBA students at the Darden School of the University of Virginia.

The group is now working with a leading international investment bank on raising the capital to establish the central infrastructure for a multinational chain, with a view to opening several large stores in Madrid and Barcelona and a network of smaller stores operated under licence in Spain and Portugal. It plans to move gradually into other European markets.

Walking into Planet's 1,200 sq m megastore on central Lisbon's Avenida da República takes you into a world of high-performance computer technology that blends the atmospheres and services of a copy shop, design agency, college library and cybercafe in an imaginative "lifestyle" approach to text and graphics.

By the time Mr Monteiro de Barros and his partners, Luis Quartin Bastos, 31, and Michael T. Melloy, 38, opened this flagship store last January, they had developed their original idea of blending copying and computer centres into a global document service for companies and individuals, producing anything from a restaurant menu to a sophisticated business presentation involving slides, CD-Roms and glossy brochures.

Besides self-service and collect-and-deliver copying services, the store, one of five Planet units operating in Lisbon, offers banks of computers that can be rented by the hour for writ-



Planet's partners (from left): Michael T. Melloy, Pascal Monteiro de Barros and Luis Quartin Bastos

ing, design, printing, internet access, data transmission and other tasks. A design team is available to help bring clients' ideas to fruition. Other departments handle photographs, slides and colour poster printing.

Inside the store, customers socialise at the tables of a small cafe, buy newspapers and magazines, and watch music videos. Planet also provides telephones, fax and mailbox services and offers stationary and computer goods for sale. All Planet stores are open 24 hours a day, seven days a week.

"Many of our customers are deadline driven, and we wanted to create an atmosphere that would reduce tension, help people relax and work to their own timetable," says Mr Monteiro de Barros. "We realised that in southern Europe there was no equivalent of the US college library where people go to read, learn, talk and have fun."

The group's business results also tell an impressive tale. The first 210 sq m store Planet store, which opened close to two central Lisbon arts universities in January 1994, registered sales of E100m in its first year, considerably above the average for similar businesses in the US.

Sales for this store rose 50 per cent in the second year, and the average sales growth for Planet's stores is now about 30 per cent a year. The group expects total 1996 sales of about E800m.

Planet's founders, who developed their idea after one of the partners was commissioned to research the

potential of a photocopying franchise, began by investing E40m, with Mr Monteiro de Barros' entrepreneur father as a sleeping partner. It went on to raise a further E420m in May 1995 in a private equity placement to fund expansion based on the group's rapidly-evolving concept of a more global service.

The company, which has grown to 240 employees, expects to record 35,000 client transactions a month by the end 1996, compared with 2,500 transactions in January 1994.

Instead of duplicating the same, limited technology in each store, Planet has developed an integrated network that makes a much wider range of technology available. This can be accessed, and the finished work delivered, through any of its outlets, although the processing may take place at another site.

"Today's technology means that even a small company can create an excellent image for itself. But it is moving much too fast for companies who don't specialise in document services or amortise their investments before the next generation of computers, printers or copiers comes out," says Mr Monteiro de Barros.

"Our aim is provide the best in expertise, service standards and the latest technology so that companies can focus on what they do best while we handle their documents and images."

Peter Wise

EUROPE'S PERFECT PERCH FOR GLOBAL BUSINESS

Madeira's International Business Centre (IBC) offers an unrivalled combination of comprehensive tax advantages and full membership of the European Union. This is coupled with legal security and a comprehensive range of investment opportunities including a free-trade industrial zone, a financial centre, a services hub and an international shipping register.

Membership of the European Union provides both regulatory guarantees and full integration with the world's biggest market, including free circulation of goods and services and the right of establishment. Madeira shares this status with only Ireland and Luxembourg, given that offshore centres in the Isle of Man, Gibraltar and the Channel Islands hang more tenuously to the EU by various differently-defined treaties.

Companies based in Madeira are not excluded from Portugal's double taxation treaties. Companies can use these to reduce withholding taxes on royalties, interest and dividends. This makes the IBC a particularly attractive niche for firms investing in those countries that have agreements with Portugal.

For industrial companies, Madeira offers a 296-acre free-trade zone, 30 kilometres from the capital, Funchal, and eight kilometres from the international airport. All raw materials and components imported into the zone are exempt from customs duties. Duties are levied only on raw materials from third countries incorporated into finished products exported to the EU. Analysts say the IBC is especially attractive to non-EU companies as a manufacturing centre for adding, in a tax-free environment, the necessary EU local content before their products are exported into Europe. Companies operating in the industrial free trade zone are automatically entitled to a total exemption from corporate taxes until the year 2011.

The international services centre has proved the runaway success of the IBC, with over 2,000 companies already registered. In addition to other benefits, companies participating in the initial capital of services enterprises are entitled to complete exemption from withholding and income taxes on dividends, interest on shareholders' loans and any other type of income from these companies. International services and financial companies can set up anywhere on the island of Madeira.

An important new competitive advantage for the IBC provides for financial institutions to incorporate new banks and insurance companies in Madeira, providing them not only with the benefits of subsidiaries exempt from all taxes, but also with a passport to operate anywhere within the EU. Banco de Boston Latino Americano was created recently under this provision.

In addition to the Bank of Boston, a number of leading financial groups are to be the first to take advantage of the latest improvement in the IBC's regulations by setting up full subsidiaries in Madeira shortly. A total of 37 banks and insurance companies already have branches of existing institutions within the financial centre of the IBC.

More than 60 vessels have registered with MAR, the IBC's shipping register. The register is open to commercial vessels and pleasure yachts. Ship owners can choose any country whose legal system they want to govern the terms of the mortgage of their vessel and crew wages are exempt from income tax in Portugal.

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PROFILE Symington, port and madeira shipper

Family keeps winning blend

Across the river from Oporto, the port shippers' names at Vila Nova de Gaia stand out in his white letters, lit up at night: Graham's, Warre, Delforce, Offley, Taylor's, Croft, Dow's.

The name Symington is not visible among them. But the Symington family controls a handful of the famous brands, some 17 to 18 per cent of global port sales and 20 per cent of exports.

Through acquisitions, the Symingtons have established themselves as the biggest force both in the port business and in the upmarket bottled segment of the madeira wine trade.

They have played a big part in modernising a tradition-bound industry, by introducing temperature-controlled fermentation and pushing for the conversion from hulk to bottled production. All port is now being sold in bottles.

Mr James Symington, 61, is the current chairman of Symington Port and Madeira Shippers, but is a bit sheepish about the title. He is really a sort of senior partner. "We run the company in a very informal way," he says. Eight members of the family are working in the business: two of his generation - grandsons of the founder - and six of the next.

"It might be seen as a recipe for disaster," says Mr Symington of the company's strong family streak. "But - touch wood - it sees to be working well."

The French Pernod Ricard group has a 20 per cent shareholding, but takes no part in management. The remaining 80 per cent is family-owned. The company's founding figure, Andrew James Symington, was born

in Scotland and arrived in Oporto in 1882. He became a partner in the oldest British port firm, Warre, subsequently taking it over from the Warre family, which also owned the larger firm Dow's.

Under a deal with the Warres, Symington then became a minority partner in both port companies. The group took shape from the 1960s. The Warres sold out and the Symingtons took over Graham's from the Graham family, together with a sister company, Smith Woodhouse.

The immediate aftermath of Portugal's 1974 revolution was, Mr Symington recalls, "an uncomfortable time" for the business. What did the family do? "Kept our heads down," he says.

In 1989 it broadened its interests further by taking a

controlling interest in the Madeira Wine Company under an agreement with the Madeira-based Blantly family and buying the large Quinta do Vestrio port estate, a brand it decided to market separately, with distinctive labels and packaging.

The Symingtons are well-regarded in the trade. "One of the reasons is that they're totally focused," comments the managing director of a rival port firm.

Mr Symington says the group has done little outside fortified wine. Like other port groups, it produces some table wine simply because of the limits imposed on the amount that can be made into port. But while the family has "fiddled around" with wines, it has opted not to stray from the area it knows well. "It's

something we discuss every 18 months and come to the same conclusion."

Most of the family members work on the commercial and marketing side. "People know it as a family business and expect to meet a member of the family," he says.

Despite their long connection with Portugal, they still consider themselves British. Much more than the sherry families of southern Spain, the British community in Oporto, built on local utilities and services as well as wine, has kept its identity - its emblem being the Oporto Cricket and Lawn Tennis Club. These days, says Mr Symington, the community has become more dispersed. But, he adds: "Cricket still happens."

David White

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Culture • by Peter Wise

Lively tradition is reborn

New complexes are stimulating interest in and improving access to the arts

Long-legged chorus girls in black tights and pillbox hats are tap-dancing on the keys of a giant 1930s typewriter as a poem by Fernando Pessoa, Portugal's greatest modern poet, emerges from the immense roller to the rhythm of a ragtime band.

This is one of the big numbers from *Lisboa em Pessoa*, an extravaganza of laser beams, topless dancers and not a great deal of poetry, that is loosely based on the writer's life, and is currently enjoying a long run at the Estoril Casino near Lisbon.

Pessoa (1888-1936), chosen by the US scholar Harold Bloom for his "outrageous originality" as one of the greatest 26 western writers of all time, is almost certainly turning in his grave - possibly in indignation, probably in delight.

Portugal has a lively tradition of popular culture, from theatrical revues to cartoonists, that is bawdy, brash and irreverent. But the portrayal of Pessoa, not the most accessible of poets, in cabaret routines suggests a bridging of a long-standing gulf between the popular and the highbrow.

At the same time as critics pour scorn on a craze for racy pop songs, known as *musica pimba*, and ridicule the quiz shows and soap operas that have flooded Portuguese television since private channels began broadcasting three years ago, complex literary novels and erudite essays top the best-seller lists.

Many interpret these as signs of an exuberant renaissance of the arts in Portugal. After being stifled for 48 years under the Salazar-Caetano dictatorship, the 1974 revolution released pent-up energies, but no coherent policy for supporting artists or broadening access to culture was established in the turbulent years that followed.

"The post-revolutionary period was rich in artistic creation but the legacy of the Salazar years, when art was censored and manipulated, continued to affect - and to a certain extent still affects - the way some of our cultural institutions work," says Manuel Maria Carrilho, appointed to the newly-created post of culture minister in the Socialist government. "Our aim is to establish comprehensive new policies."

Portugal's cultural resurgence is



Manuel Maria Carrilho: minister with a mission

reflected in the growing international prestige of its artists. Maria João Pires is a classical pianist who "deserves to be a household name", according to one British critic. The veteran director Manoel de Oliveira has been described in one newspaper as "the most eccentric and most inspired of cinema's world masters".

The works of novelists such as António Lobo Antunes and José Saramago have won prestigious international prizes and are often released simultaneously in several languages. Paintings by Paula Rego, Julio Sarmiento and others hang in the world's most famous galleries and museums. The contemporary group *Madredeus*, whose music is described as "a window into the Portuguese soul", plays to sell-out concerts from Athens to Tokyo.

"The international success of artists like these is due entirely to their own efforts," says Mr Carrilho. "But their prestige helps open the way for lesser-known Portuguese creators. We place great emphasis on supporting the international projection of Portuguese culture, which has important repercussions for our economy and international standing."

Expo '98, the world fair to be held in Lisbon within 18 months, will provide Portuguese artists with their biggest single forum to date. Portugal is also to be the theme of the Frankfurt Book Fair next year, an event that the government will use to promote a wide spectrum of Portuguese culture.

At home, Portugal's young people, more educated and more affluent

than previous generations, flock to concerts, plays, operas and exhibitions at new Lisbon venues such as the Centro Cultural de Belém (CCB) and Culturgest. These massive complexes have been criticised as grandiose and ugly, but they are clearly succeeding in their aim of stimulating interest in and improving access to the arts.

The CCB is entirely state-run, and Culturgest belongs to Caixa Geral de Depósitos, a state-owned bank. "If it were not for the state, it is unlikely that there would be any theatre, cinema, opera or libraries in Portugal," says Mr Carrilho. "State support is fundamental."

He believes state intervention in the arts is an important dividing line between social democrats, who support it, and liberals, who oppose it. "It is my profound conviction that the state has a responsibility to intervene," he says. "My two objectives are to democratise culture, by making the arts more accessible to the general population, and to improve the facilities for artistic production."

But he is adamant that the state should in no way try to influence what artists produce. Cinema, orchestras, ballet, opera and theatre in Portugal are overwhelmingly state-funded, but management, programming, and creative endeavour should be entirely independent, says Mr Carrilho.

Business sponsorship of the arts in Portugal, where the culture ministry has an annual budget of less than \$250m, and is also responsible for the costly area of historic buildings, is coveted but elusive.

The government is revising legislation to increase fiscal benefits for companies sponsoring the arts. But Mr Carrilho acknowledges that Portugal lacks the sponsorship tradition of countries such as Britain and Italy.

Portugal is the only country in the European Union not to have set up an Association for Business Sponsorship of the Arts (ABSA), national bodies that provide the expertise and information from bringing businesses and artists together.

"I think Portugal would benefit greatly from creating an ABSA that could show companies precisely what they can gain from sponsorship and provide an efficient service for establishing contacts," says Michael Collins, who runs London-based Portugal 600. The organisation, which promotes Portuguese culture in Britain, is proving increasingly successful in attracting sponsorship from some leading UK companies.

PROFILE António Lobo Antunes, novelist

Doctor's prescription for a prize-winner

After finishing medical school, António Lobo Antunes went to St Thomas's Hospital in London - a place, he says, with important associations for him, because it was where Somerset Maugham studied.

Not until much later, when he was 36 and well established as a psychiatrist, did he succeed in getting his fiction published. But Lobo Antunes now has his place among the select breed of doctor-novelists.

His latest book, *The Inquisitors' Manual*, a story about one of Salazar's ministers and his family circle, has been topping Portugal's best-seller list. With 11 novels, translated into several languages, particularly successful in France, he is regularly cited as a contender for the Nobel literature prize, which no Portuguese-language writer has won.

His stories are built around the events of Portugal's recent history and the way they impinge on people's lives - the dictatorship, the African wars, the 1974 revolution, and ensuing disenchantment. The writing is often funny but also bitter, dealing with separations, failed marriages, humiliations and loneliness.

"In the beginning I always said that my writing had nothing to do with my work as a doctor," he says. "But from the third or fourth novel it occurred to me I could use some medical techniques and adapt them to my writing."

His use of "free-floating association" imposes a complex narrative structure. *The Inquisitors' Manual* is told through a series of different voices, personal recollections in which key sentences crop up repeatedly. Full stops are hardly used, and the book ends in mid-sentence.

The author gave up psychiatric practice about 10 years ago to devote himself



António Lobo Antunes: perhaps a Nobel prize contender

full-time to his craft. By this he means 13 or 14 hours a day, writing everything by hand. "I like drawing the letters," he says. "It's like doing crochet work. I like the physical contact with paper."

Among his influences, he cites cinema and music. *The Inquisitors' Manual*, he says, is constructed like a symphony.

The second novel in the cycle will bring him back to the subject of Africa. He spent 27 months as an army doctor in Angola in the early 1970s. The book that first made him famous - called *Judas's Arse*, rather coyly translated in the English version as *South of Nowhere* - was based on his experience of a war in which soldiers were used as mine-detectors "because a truck was more

necessary and expensive than a man."

He now wants to focus on families in Portuguese Africa before the colonial wars and after independence.

Now 54, Lobo Antunes grew up in a surgeon's family in the Benfica area of Lisbon, where he was more exposed to Anglo-Saxon and German literature than the standard French fare. He acknowledges debts to Jane Austen, George Eliot, Dickens and the Brontës, the more obvious influences of Faulkner and Joyce, as well as Chekhov (another doctor) and Cogli. A "mixed Italian-German-Brazilian" background gives him a certain distance on contemporary Portugal, he says.

David White

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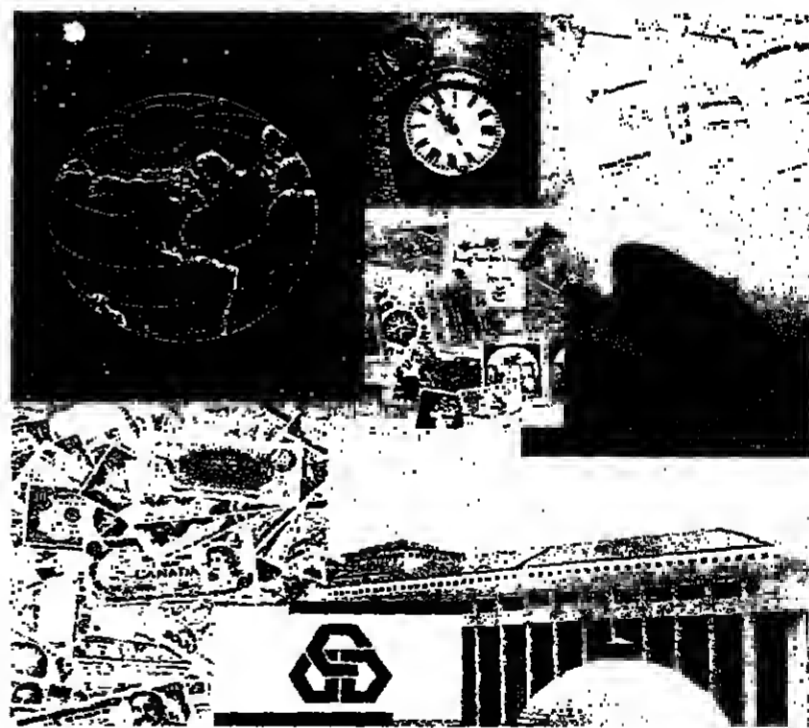
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6 PORTUGAL

Tourism • by David White

Waking up to the wine business

Growers have belatedly discovered another side to their industry

You could take the train, of course. From Oporto's blue-tiled central station to the heart of the Douro wine region takes two hours and a bit, the exact time depending not on the number of stops but on the age of the trains.

At an average of rather less than 30 miles per hour, the train does at least afford a good view. For the second half of the trip the steep banks of the river valley open up on the right - some of Portugal's loveliest scenery and still a largely unexploited tourist destination.

The advice given to pre-war world war railway passengers by Baedeker's travel guide remains valid, however. It is rarely obvious which station the train has arrived at. "When in company," the guide warns, "one would do better to take a private conveyance."

And it is to those visitors with their own or rented cars that this region's first attempt at a coherent tourism campaign is addressed. The Port Wine Route, inaugurated in September, is pioneering an idea already familiar in countries like France and Austria, but never before tried in Portugal.

The initiative, from the Port Wine Institute and the Casa do Douro growers' association, is perhaps the best example of efforts to develop a style of tourism totally different from the mass holiday business of the Algarve in the south.

"There was nothing organised to the region," says Sofia Basto, who runs the project from the institute's office in the town of Régua.

"They were all asleep in the wine business."

The project is aimed at the upper end of the market, offering visitors an à la carte choice of stops among 54 approved sites - large and small quintas (estates), hotels, wine bars. Accommodation is around £10,000 to £15,000 for a double room. The aim is to attract visitors year-round, in a region noted for its tough winters as well as its hot dry summers.

Organised visits can be made to the prehistoric carvings at Foz Côa, on a tributary of the Douro, saved last year when the incoming government put a stop to a dam project.

A number of quintas offer participation in activities such as grape-treading - a process still used for some of the best wines. It probably helps if you like port, but the region - with official demarcation going back to 1767 - is also known for its red and white table wines, muscatel and sparkling wines. For the last few years, the Douro river has also been navigable by boat, a seven-day trip to the Spanish border and back, largely favoured by retired people.

The Douro is typical of the more "authentic" image tourist authorities are trying to promote. "Portugal is building a new strategy for tourism," says Augusto Mateus, who as economy minister has overall charge of the sector. "And I firmly believe tourism can create a lot of jobs."

The aim is to enlarge the market by segmentation, selling not a single product but rural holidays, cultural holidays, historic-interest holidays, sports holidays and, increasingly, business conventions and congresses. "Our goal is to make Portugal a unique destination, not the same as anybody else offering sun and beach at low prices."



The Wine Route offers beautiful countryside...and a selection for the palate to savour

The hard truth is that low-price sun and beach, while still the mainstay of Portuguese tourism, cannot be relied on to produce the hoped-for growth.

The Algarve has suffered a setback this year from a sharp fall in the number of British holidaymakers. Some 70 per cent of UK-based business, in terms of nights spent, is on the southern coast, with its infrastructure of hotels, apartments and golf courses. But with the recent strength of the escudo, the region has lost business to Spain's Costa del Sol.

Last year, Portugal received 9.5m foreign visitors, up from 9.1m in 1994. But the increase in numbers and receipts since the start of the decade has been relatively slow. Gross tourism income last year, according to Bank of Portugal figures, were £272bn, up from £262bn the previous year, but the net balance, counting spending by Portuguese travelling abroad, rose only slightly, to £6409bn from £6400bn, and as a proportion of gross domestic product went down to 2.6 per cent from 2.8 per cent.

Officials say the Algarve continues to account for about half the country's tourism business, in both volume and money terms. But they argue that the country needs to promote its distinctive identity if it is to continue competing with Mediterranean rivals.

"The problem has been filling the gap between the traditional package-tour custom and the more intrepid of individual travellers. Since the 1980s, an intermediate market has been built up through *turismo de habitação*, offering rooms at private homes ranging from mansions to farmhouses.

"We don't have unlimited capacity in inland tourism," officials admit, but say that big numbers are not the aim. Unspoilt areas such as the Alentejo, whose attractions include the historic city of Evora, require a gradual

approach. "We can't just build lots of hotels in Evora and go from there."

Targeting more discriminating visitors means reducing the country's dependence on large tour operators. "Quality," officials say, "is not an aim - it's a necessity."

But even the best initiatives can hit unexpected pitfalls. The one big problem of the Port Wine Route is that there are no road-signs to point motorists in the right direction. Plans were blocked by a roads committee. It objected that the logo, a stylised wine glass, would be an incentive to drink-driving.

"The people who come to the wine route don't drink that way," protests Ms Basto at the wine institute. The quintas, she insists, offer guests no more than a single glass by way of welcome. She hopes to reverse the decision. "We're trying to convince them that it's a cultural product, a tourism product."

Expo '98 • by David White

A new lease of life

Organisers are determined this exhibition puts Lisbon firmly on the map

Large digital signs by the roadside on entry routes into Lisbon clock the countdown to the opening of the city's Expo '98 exhibition - in days, hours, minutes and seconds.

With 18 months still to go, and with the main international promotion campaigns yet to be launched, the organisers are seeing to it that nobody in Lisbon should ignore the importance of the event, even if it means distracting drivers' attention from the traffic.

They regard the Expo as not just a \$1.5bn summer happening, but a new lease of life for Portugal's crowded capital and a chance to recover a measure of national self-confidence.

Dedicated to the theme of the oceans, it will be the first event of its kind ever staged in Lisbon, and the first in Portugal since an 1866 international exhibition in Oporto.

Portugal - a shopping centre.

Antonio Cardoso e Cunha, an ebullient figure who came to head the project after spending seven years as the first Portuguese member of the European Commission in Brussels, enthuses about the event's symbolic significance. The Expo's theme evokes the one period in history when Portugal, because of its navigational skills, was at the cutting-edge of know-how and enterprise. The Expo commissioner-general's dream is "to convince Portuguese people that they are as able as they were 500 years ago".

He is confident that official participations, which have already overtaken the 114 countries present in

city a new face for the next century. The overall development project, in a privileged setting where the river is more like a lake, almost 20km wide, covers a total area of 360 hectares.

During construction, Mr Cardoso e Cunha reckons the project could contribute as much as 30 per cent of the country's economic growth over three years.

The aim, he says, is to complete the project without money from the government "or to a very limited extent" - by working with banks and relying on revenues from the exhibition and real estate sales to cover the \$1.5bn investment cost. He does not rule out "a small surplus".

The state has so far granted \$3m, most of the land, which belonged to the port authority, and rights to build on it and sell plots. "The only thing we required from the government was the soil," says Mr Cardoso e Cunha - but adds that it was "full of trash" and had to be de-polluted.

Electricity cables, telecommunications, water supply and waste systems have been installed in a single tunnel almost 6 kilometres long. Construction work on the site involves some 4,500 jobs, and 5,000 are expected to be employed during the Expo itself.

Afterwards, the aquarium - the biggest in Europe, recreating the ecosystems of four oceans, with 25,000 fish, birds and animals - will be kept as an attraction. The "Utopia" pavilion, dedicated to myths and legends of the sea from Atlantis to Jules Verne, will be turned into a multi-purpose centre for cultural and sports events. The halls of the international area will become an exhibition centre. Unlike Seville, foreign countries will not build their own pavilions but will give space for their displays, which will then be removed.

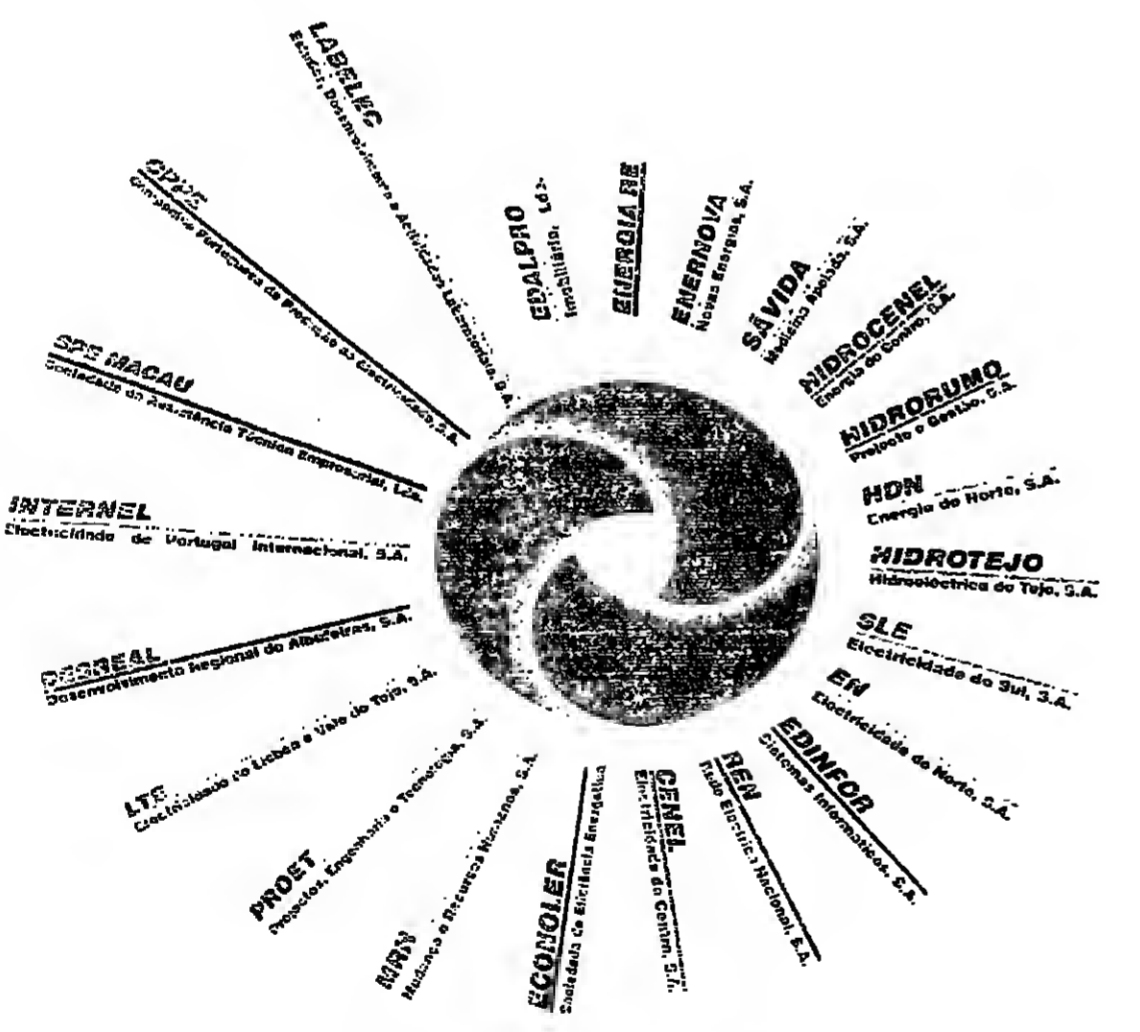
Residential, commercial and leisure areas next to the site are destined to become a community of 40,000 residents, with 30,000 jobs, of which organisers say 18,000 will be newly-created.



Seville, will have reached 130 to 140 by next May's confirmation deadline - a clear record, although somewhat helped by the proliferating number of world nations. Up to 10m visitors are expected, half from abroad.

Lisbon, he says, will be "a different story altogether" from Seville in 1992. He considers Seville to have been "a great achievement", but designed solely at pumping money into southern Spain, without any idea of getting it back. The event required building new hotels "which were extremely expensive during the Expo and empty afterwards", he says. Plans for using the exhibition site as a hub for research and development were not put together until afterwards. Unable to achieve the same success as Andalusia's existing high-tech park in Málaga, the Seville site has the uncomfortable feel of a graveyard.

Lisbon's idea, he says, has more in common with Barcelona's approach to the 1992 Olympic Games, using the event to recover a neglected waterfront zone and give the



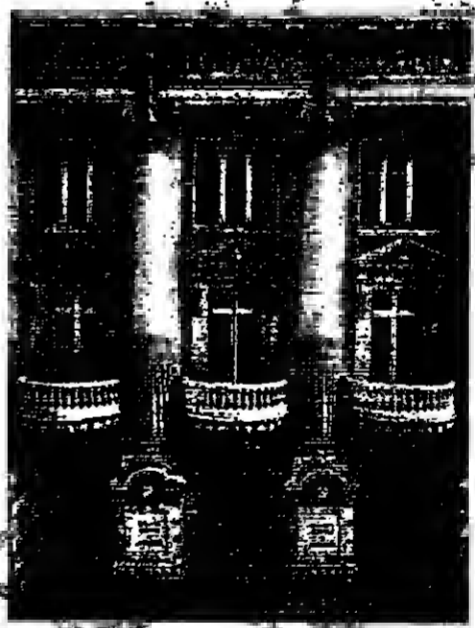
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DENMARK

Welfare burden threatens the state's prosperity

Despite good short-term prospects, the cost of unemployment and an ageing populace is forcing a change of political climate, says Hilary Barnes

A raft of new measures planned for next year and aimed at bringing the young and long-term unemployed back into work is just one indicator of a change currently sweeping through Danish politics.

For a long time one of the most generous providers of welfare support in Europe, Denmark is coming to terms with the threat posed to its economic foundations by the financial burden it is already shouldering, and by the prospect that this will increase further as a result of demographic shifts which are producing an ageing of the population.

Looked at in the short term, the economy is stable and strong if judged by the usual indicators. The current account, in deficit for 26 consecutive years to 1989, has since been in comfortable surplus and is currently about Dkr10bn or 1 per cent of gross domestic product.

After a "growth pause", which began in the autumn 1995, the Danish economy seems to have entered a recovery phase earlier than the economies of the rest of Europe.

Manufacturing output and orders have picked up strongly over recent months, and the important Danish pigmeat industry is booming on the back of the European beef crisis.

The GDP growth rate will slip from 3.6 per cent in 1995 to about 2.0 per cent this year, but is expected by the government to rise to about 3.0 per cent or slightly more

in 1997. Inflation has not been a serious problem since the mid-1980s. Consumer prices over the 12 months to September rose by 2.3 per cent.

Denmark would even - if it had wished to be considered - been among the countries in the first group qualifying for membership of Emu.

Its budget deficit will be only about 1 per cent of GDP in 1996 (against the 3 per cent criterion laid down in the Maastricht treaty), falling to 0.5 per cent in 1997 before moving back into surplus. Gross national debt as a proportion of GDP is one of the lowest in Europe at about 60 per cent.

Under the opt-outs obtained by Denmark as a condition for holding a second referendum on the treaty in 1992, Denmark will not, however, be participating in the common currency, and public opinion polls show no signs of a wish to change this stance.

Yet, while the country's economic performance has been good, a closer examination of employment figures gives some indication of the problems that are being stored up.

The headline unemployment figure has fallen from 12.4 per cent at its peak in 1993 to less than 9 per cent currently, but most of the reduction has taken place as a result of the withdrawal of individuals from the labour market. Job creation has made only a relatively small contribution to this process.

About 1m Danes of work-

ing age, about a quarter of the age group, are supported entirely by social welfare incomes of one kind or another and, for some, welfare dependency has become a way of life.

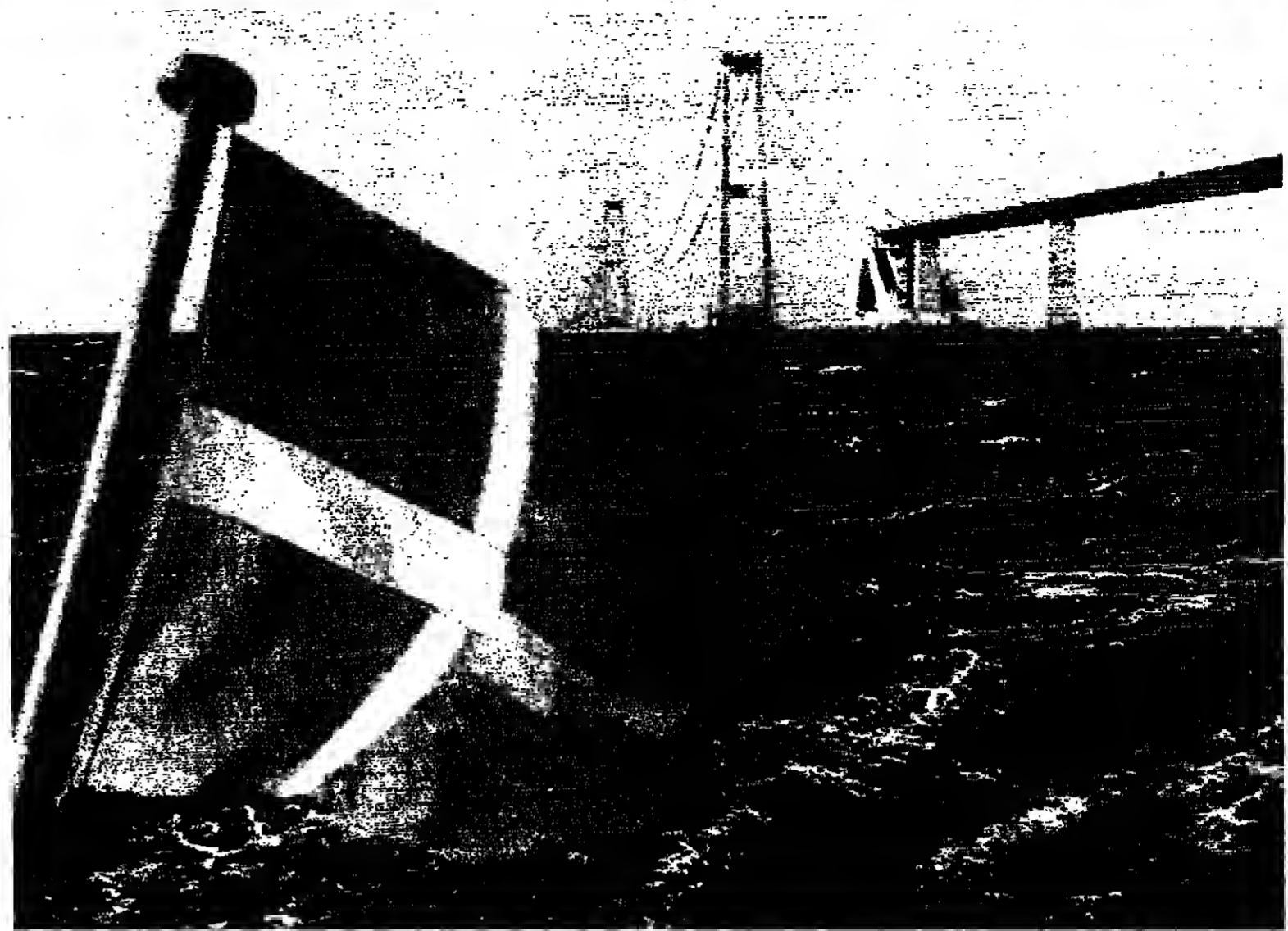
To support the welfare system, government expenditure has risen to about 60 per cent of GDP, while the tax burden at 51 per cent of GDP is listed as the highest in Europe by Organisation for Economic Co-operation and Development statistics.

The changes, which are scheduled to take place in the New Year, are designed to start rolling back this burden.

Unemployed Danes under the age of 25, whose access to benefits has until now remained largely unchanged will after six months be given a choice between accepting a make-work job which is provided by the local council or enrolling in a study course which will equip them for a proper job.

A year later similar provisions will affect the long term unemployed over the age of 25. Benefit reforms which are again intended to promote a return to work will also be introduced. At the same time, other signs of a change in the national mood are emanating from the Social Democratic Party, founded 125 years ago as the party of the industrial proletariat. A powerful campaigning organisation, the party dominated Danish politics from the late 1920s until the early 1990s.

It is still the biggest party in Denmark, is able to count on about a third of the vote, and will continue to play a crucial role in Danish politics for the foreseeable future. Under its leader Poul Nyrup Rasmussen, the prime minister, it is the dominant partner in the current minority coalition government, formed in 1993, with the small social-liberal Radical Liberal Party and the Centre Democrats.



The East Bridge across Great Belt: the bridge will be the longest suspension bridge in Europe and the second longest in the world

Popular support for the SDP has been falling, however, and has been further eroded by a tendency this year on the part of the coalition government to appear accident-prone.

The government was, for example, strongly criticised this month for what was seen as its maladroit handling of a visit to Copenhagen to receive a European Union literature prize by the UK author Salman Rushdie.

The government first cancelled the visit on security grounds, then reversed the decision when it met a barrage of domestic and international criticism, alleging cowardice in the face of the Iranian "fatwa" against Mr Rushdie.

The coalition's reputation was not improved, either, when the foreign minister, Niels Helveg Petersen, made allegations of double-dealing by the prime minister before assuming leadership of the party in 1992 when he ousted the incumbent, Svend Auken (now energy and environment minister).

The prime minister admitted that he bowed out his

foreign minister who, however, did not resign. Finally, finance minister Mogens Lykketoft, a shrewd political operator, had hoped to secure a majority for the 1997 Finance Bill, which receives its final reading in mid-December, through a deal with the Conservative Party.

This is a manoeuvre he executed last year, opening up a damaging split between the two key opposition parties.

But the Conservatives were not prepared to co-operate on this occasion, leaving the government looking around for a "patchwork" of support from different parties for various sections of the Finance Bill.

There is no serious danger that the government will fall

to carry the Finance Bill, but once again, the public has been left with the impression of an administration not fully in control of its own destiny.

The next election is not due until September 1998 at the latest but the coalition's recent tribulations have caused Danish commentators to wonder whether the government can hold on to power until then.

Waiting in the wings are the Liberal Party, led by the former foreign minister, Uffe Ellemann-Jensen, probably Denmark's internationally best-known politician, and the Conservative Party, led by the former minister of justice, Hans Engell.

If opinion polls are any indication this far from an election, these two parties

have a good chance of being able to form the next government, which, true to tradition in a parliament which invariably includes eight or nine parties, would be another minority administration.

The welfare reforms reflect a more general move by Mr Rasmussen to take his party - like the Labour Party in Britain - towards the centre ground in politics.

Since taking over as leader in 1992, Mr Rasmussen has set in train a modernising process within the party which at its peak was able to win over 40 per cent of the vote.

By the 1994 election it won 34.6 per cent and in recent opinion polls it has slipped to 29-31 per cent.

Continued on page 2

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■ **Economy:** by Hilary Barnes

The cost of support is rising

Despite a positive short-term outlook, the cost of the welfare state is rising

The short-term outlook for Denmark has become so positive, Marianne Jelved, the economy minister, complained recently, the media had lost interest in it.

Yet, while current indicators offer a low budget deficit, a strong balance of payments, subdued inflation and a healthy recovery in manufacturing orders and output as evidence of a stable economy, the longer-term picture is markedly less bright.

As elsewhere in Europe the costs of sustaining a generous welfare state and an ageing population, as well as dealing with rising unemployment, suggest the country faces growing long-term challenges.

While the headline unemployment figure has fallen from 12.4 per cent at its peak in 1993 to less than 9 per cent currently, most of the reduction in unemployment has taken place as a result of the withdrawal of individuals who are unable to find work from the labour market. Only a relatively small part of the reduction can be attributed to job creation.

About 1m Danes of working age, about a quarter of the age group, are supported entirely by social welfare incomes of one kind or another.

Moreover, the real level of unemployment is more than double the headline number and is made up of those receiving welfare benefits: others in labour market programmes; early retirees and participants in an extremely popular leave-from-work scheme.

The scheme - currently

being used by about 80,000 people or 3 per cent of the labour force - provides financial support for people who take up to a year off work either to care for children of pre-school age or to undertake a course of education.

High levels of compensation for those out of work are one factor behind the difficulty in bringing down the real jobless figure.

In its 1996 survey the Organisation for Economic Co-operation and Development quoted studies suggesting that large numbers stood to gain financially from unemployment and a significant number were able to increase their household income by only relatively small amounts by accepting a job.

Professor Jørn Henrik Peterson, of Odense University, has calculated that in 1993, for every 100 people in employment, there were 47 children and 35 people over the age of 67 to support.

Add to this the population of working age living on social welfare transfer incomes, and the burden of support reached 96 per 100 employed.

By 2030 there will be 50 children and 47 retired people per 100, Professor Peterson has extrapolated that financing the supported population will, by 2030, require an increase in value added tax from 25 per cent today to 35 per cent and a 6 per cent point increase in the income tax level.

A group of Swedish economists earlier this year estimated that in Denmark in 1993 for every 100 people in private sector employment 172 were employed in the public sector or living off social security transfers, which compared with 132 in Sweden, 101 in the UK and 76 in the US.



Pricing people into jobs by raising their educational attainments will require changes in attitudes to education

This heavy social welfare is beginning to cause concern. As part of a series of measures due to come into force from next year, young jobless Danes under the age of 25, who have been able to live quite comfortably on either an unemployment benefit or the cash social security hand-out, will find the climate of the welfare state significantly harsher.

After six months they will be given a choice; either accept a make-work job provided by the local council or enrol in a study course which will equip them for a proper job. The unemployed have also been told that they will be classified as unavailable for work, and will therefore not receive their benefit, unless they are clean, neat and sober.

In 1998, the net will tighten on the long-term unemployed over the age of 25, who have been able to surf through the benefit system almost indefinitely.

From 1998 anyone who has been unemployed for two years or over will either be given a make-work job or told to enrol in a vocational

training programme.

"It's going to be a surprise for quite a lot of people when they are told that if they have not found themselves a job they are going to have to work anyway," says Mrs Jelved.

A proposed reform of the basic income support - the cash welfare benefit, available to those who do not qualify for unemployment benefit - has been cast in a similar mould, emphasising the requirement that recipients must, if they are capable, accept make-work jobs in return for the benefit.

Yet while the government is toughening its stance on the unemployed, there is less agreement on how to tackle other welfare financing problems. A reform pause has, for example, been declared until after the next election as far as other welfare programmes are concerned.

Some of these, such as the early retirement and leave-from-work schemes, may well be axed or made less attractive in future, although Nyrup Rasmussen, the prime minister, says it will not be with his party's

consent.

A key concern is how to increase employment in the private sector. All the growth in employment for the past 30 years has taken place in the government sector, including administration, education, health and social welfare. There has been no increase (other than by cyclical fluctuations) in private sector employment over this period.

There is no support in Denmark, or the rest of Scandinavia, for what is known as the Anglo-Saxon model, where low social security compensation and low wages price people into jobs.

As Mogens Lykketof, finance minister in the present government, says: "We will not lower wages to price people into jobs. We will raise people into jobs by raising their educational attainments."

This is an ambition which will require some changes in attitudes to education.

Cross-national comparative studies have placed a serious question mark against the standards of attainment in

the Danish schools, where the fashion in education for a generation has placed more emphasis of "personal development" than learning.

High drop-out rates at the universities and other institutions of tertiary education are a problem, but conversations with management suggests that standards at the engineering schools and in bio-technology, both crucial for industry, remain high.

There is, however, serious concern about the inadequate training of young doctors emerging from the university hospitals.

An important problem, well recognised by the government, is that some 30 per cent of all school-leavers receive no vocational training.

Programmes to remedy this are being expanded and the tougher line being taken with young unemployed should also help.

Nevertheless, solving the employment problem by enhancing educational attainments will be a long haul and is, perhaps, not going to be enough in itself.

■ **EMU:** by Hilary Barnes

The people's choice

Opinion polls suggest Danish Emu membership has little popular support

"It would be nice if the markets learned to understand that just because we are not going to join the Euro common currency area, it does not mean we are going to devalue," the governor of Danmarks Nationalbank, Bøll Nyboe Andersen, told Danish business leaders recently.

Marianne Jelved, the economy minister agrees. "The central problem for us is to explain that Denmark cannot join the Euro, but that this is not because we are hoping to have an easier time of it by staying out."

Under the Edinburgh agreement of December 1992, Denmark obtained an opt-out from Emu membership. This, and other options to the Maastricht treaty, was a condition of holding a second referendum on the treaty in May, 1993. The treaty was rejected by the first referendum on June 2, 1992. The opt-outs cannot be changed except by referendum, and there is no point in holding a referendum when there is little likelihood of winning," says Mrs Jelved.

Opinion polls suggest that Danish Emu membership is supported by perhaps one in four voters.

Ironically, Denmark has one of the best track records among EU countries and would easily meet the Maastricht treaty's convergence criteria. The government budget deficit is down to about 1 per cent of gross domestic product this year and will fall, according to government projections, to about 0.5 per cent of GDP next year before moving into surplus in 1998. Gross national debt is also among the lowest in Europe at about 60 per cent of GDP.

Denmark has achieved

this through a policy of economic stabilisation since 1982 when the country had a serious "double-deficit": a large and persistent deficit on the current account, and a large budget deficit.

An exchange rate held stable against the Ecu was then declared. Subsequent governments have stuck to this and while the Krone depreciated against the D-Mark and the Ecu when the European exchange rate mechanism collapsed in 1992, lost ground was quickly made up. The current account moved into surplus in 1990 after 26 consecutive years of deficit and has since remained in surplus.

It irks the government that its virtue has not been rewarded. While the Danish economy is in much better shape than the French, for example, the yield gap between German and Danish government bonds is wider than the gap between French and German bonds.

This, according to Mrs Jelved, is a measure of the cost to Denmark of not joining the Emu. The government's strategy is to obtain bilateral agreement with the coming European Central Bank to establish a narrow fluctuation band for the Krone against the euro of 2.25 per cent or perhaps less, with ECB agreement to support the Krone if it comes under pressure.

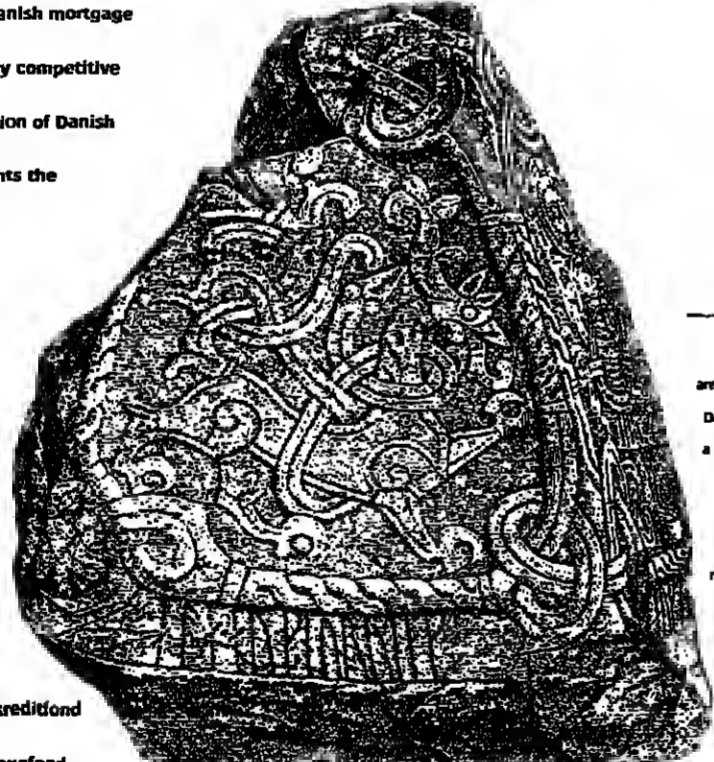
"This is a signal to the markets that we do not intend to avoid our obligations," says Mrs Jelved. "An exchange rate agreement is not sufficient. We have to continue to conduct a disciplined economic policy."

Theoretically, Denmark could obtain de facto membership of the common currency area by allowing the euro to become a legal parallel currency. But Mrs Jelved indicates this would present a political problem, as the electorate has been promised an opt-out from the common currency. "That is a topic we cannot begin to discuss at this stage."

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A threat to prosperity

Continued from page 1

He has severed formal links with the trade union movement, by which the Confederation of Danish Trade Unions and the party were automatically represented on each other's executive committees. This has given the party greater freedom to pursue its own goals, which are not always the same as those of the trade unions.

In his state of the nation address at October's opening of the Folketing (Danish Parliament) he praised the family in terms not usually associated with Scandinavian Social Democrats whose attitude to high divorce rates and single-parent families was expressed by a Swedish sociologist, who said one of the achievements of the welfare state was to liberate the individual from the tyranny of the family.

Mr Rasmussen said: "We must support the family and the establishment of family networks, so that we are able to re-establish standards and sustain essential values." He has also been ready to talk tough on crime. The Folketing is discussing measures to give these words legislative support.

Linking rights - such as rights to social welfare benefits - with duties, is another of his recurrent themes, though his government has not yet come up with reforms to make this link tangible.

But while the political climate has changed, reforms will be gradual. The welfare state is sacrosanct. It can be trimmed but not altered in its essentials. It is popular and a government opting for radical changes is likely to lose the next election.



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3 DENMARK

The Baltic approach: by Hilary Barnes

Leading light in regional defence

The end of the Soviet Union was the catalyst for Denmark to assert its influence

For the first time in several hundred years, says a Danish diplomat, the small Nordic countries are asserting their influence over the Baltic region and the Danes are in the vanguard of this process.

The situation in the Baltic was altered radically by the collapse of the Soviet Union and the restoration of normal contacts between the Nordic countries and their Baltic neighbours: the three Baltic states of Estonia, Latvia and Lithuania, Poland, the eastern provinces of Germany, and the St Petersburg region of Russia itself.

In the cold war years, Denmark's role as a member of Nato was to act as a cork at the neck of the Baltic. It was a part which they played, in the eyes of their Nato allies, without much enthusiasm and without paying their fair share of the Nato burden - a cause of constant irritation between Denmark and its allies.

But as Peter Urwin, a former British ambassador to Copenhagen, has noted in a recent book called *Baltic Approaches*, Danish attitudes have changed.

"There has always been a reserve about Danish involvement in military matters and any activity that smacked of assertiveness." But the end of the cold war provoked a new, quite different Danish commitment to the tasks that change demanded.

The new approach was initiated by Uffe Ellemann-Jensen, the Liberal party leader and foreign minister from 1982 to 1993. He stuck his neck out to support the independence of the Baltic states from Russia between 1990 and 1992, a stand for which he is still regarded as a hero by the Baltic peoples.

The initiative was taken by the present government, especially by Hans Haekkerup, the minister of defence.

There has been a veritable explosion in Nordic-Baltic contacts of every kind, political, cultural, and commercial, since 1991. But Denmark, supported by its membership of Nato (while Sweden and Finland were hampered by their history of neutrality) took the lead in developing defence co-operation with the Baltic states and Poland.

This has to be seen, Mr Haekkerup explained, in light of Nato's attempts to forge new alliances in post-cold war Europe in the Partnership for Peace programme.

In 1997, the Baltic states plan to form Baltbat, the joint Baltic Peacekeeping Battalion

programme and also its commitment to make forces available for peace-keeping and humanitarian operations outside the Nato area.

Denmark supports the Baltic states' wish to become full members of Nato, covered by the mutual security guarantee. If, which seems likely, the alliance is not prepared to extend full membership to the Baltic states when the first new east European members are admitted within the next three years, Mr Haekkerup believes the Baltic states should still participate in all aspects of Nato co-operation except those involving the security guarantee.

This means, he says, that they would have permanent military representatives at the Nato regional headquarters

at Karup, in Jutland, where they would take part in the planning, organisation and implementation of peace-keeping operations and exercises.

Mr Haekkerup also wants Nato to open offices in the Partnership for Peace countries to provide information and advice about the nature of the Nato alliance and the Partnership for Peace.

Denmark's co-operation with the Baltic states and Poland has been directed at helping the democratic process in these countries.

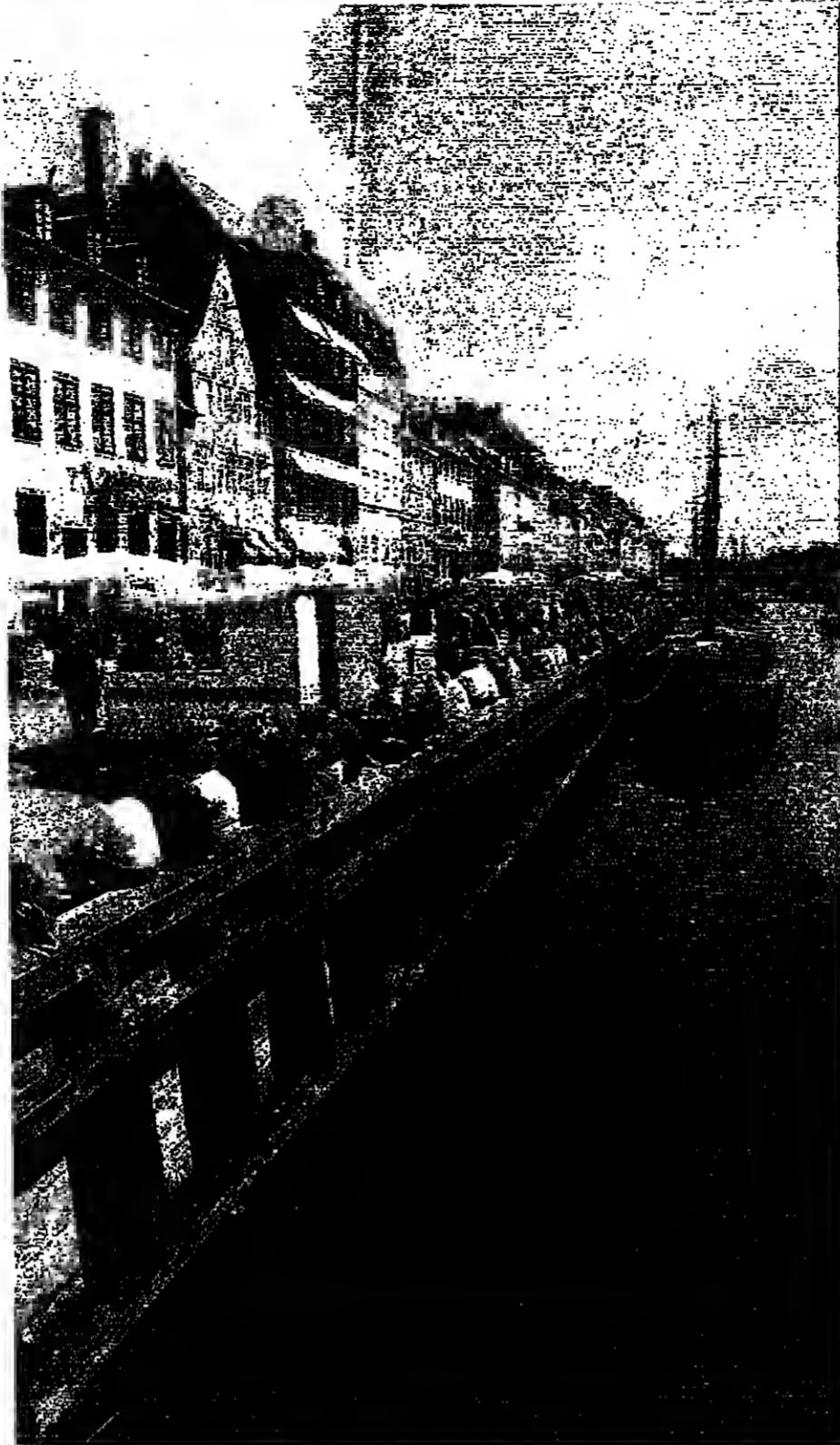
It has also provided advice on the democratic control of the armed forces and the conversion of military production for civilian purposes with emphasis on crisis management in preparing these countries for participation in peace-keeping operations.

In the case of the Baltic states, Denmark has been helping them to build up a domestic defence force, a process which had to start from scratch.

The chief of the Danish defence staff, General Christian Hvidt, told an audience of businessmen recently that co-operation with the Baltic states involved 77 "activities" in 1995, 123 in 1996, and he forecast the number will rise to at least 223 in 1997.

The Baltic states have contributed units of platoon strength to the joint Nordic-Polish brigade serving with Ifor in Bosnia. This autumn the brigade was joined by a full Lithuanian company, which underwent a 10-week training course in Denmark. These units are the forerunners of what is already known as Baltbat, the joint Baltic Peacekeeping Battalion, which the Baltic states plan to form in 1997.

According to a Danish ministry of defence document on the project, the multi-national project is regarded by Nato as a particularly constructive contribution to the co-operative security of the Baltic states, the Baltic Sea region and Europe as a whole.



Culture vultures: Copenhagen is the Cultural Capital of Europe for 1996. The city - which is already well endowed with a number of museums, theatres, architecture and grand squares and avenues, and which has one of the richest alternative arts scenes in Europe - is enjoying a year-round festival as the Cultural Capital. Organisers have laid on an extensive programme which includes hundreds of exhibitions, concerts, events, festivals and performances throughout the year.

PROFILE Thrane & Thrane

Business with double vision

The bosses of one of the fastest-growing IT companies in Denmark share a common vision. But then that is hardly surprising: they are identical twins.

Per Thrane, CEO, and Lars Thrane, chairman, of Thrane & Thrane started their company in 1981 with Dkr300,000 in capital and have built up turnover to Dkr180m. With sales growth of 15-20 per cent a year, they expect to pass the billion kroner mark within six or seven years.

Thrane & Thrane is a niche company in radio communications, based at Soborg, a Copenhagen suburb. The Thranes say each of their main products has between 50 and 80 per cent of the world market.

Their vision is based on an ability to find new areas where technology can make a difference. Their first product was an automatic short-wave telex unit, revolutionary at the time, and their first buyer was the Danish Ministry of Foreign Affairs. The product, the only one of its kind approved for global use by Interpol, is now used by foreign ministries all over the world and, together with coastal radio stations supplied by the company, is an important part of maritime communications.

But today, satellite radio communications equipment is the big growth area for the company, which has broken into the market with a mobile satellite communications terminal, Capsat. Based on the Inmarsat-C and Inmarsat-M satellite systems, Capsat offers voice, fax, telex, and data communications independent of any ground facility.

The equipment range includes a portable satellite telephone system for text, voice and data. About the size of large attaché case (the Thranes predict that eventually it will not be much bigger than today's

cellular phone hand-sets), it offers mobile communication in remote areas.

Earlier this year, the company won a contract for its Capsat equipment from the US Air Force. The Thranes say the aeronautical Capsat, small enough to be installed in any aircraft, offers reliable and secure communications, and also provides an exact second-to-second position and altitude update, which can be programmed for reception on the ground.

The system can also be used by haulage companies as a navigation and position tracking system, as well as for communication with drivers.

Given the ability of the system to work in areas where communications are rudimentary, emergency-aid organisations are Thrane & Thrane's biggest single customer group.

Entrepreneurs often complain that access to risk capital is a problem. Not Thrane & Thrane, which, for a company involved in new products is unusually self-sufficient.

"We don't spend our money before we have earned it," says Lars Thrane.

The company is entirely self-financing and has no bank loans. With assets of Dkr137.8m and equity capital of Dkr82.6m, the equity-to-assets ratio at the end of last year was 67 per cent.

This helps to facilitate decision-making. "We don't have to spend time discussing budgets with the bank," says Per Thrane.

About 50 per cent of its profits go into research and development.

About half its 135 staff are graduate engineers, and all were educated at the Danish Technical University, which "gives an excellent, broadly based education," say the brothers.

Hilary Barnes

Europe: by Hilary Barnes

Holding EU in suspense

Domestic politics are once again threatening progress of Maastricht talks

The Danish electorate is ambivalent about the European Union. This was dramatically demonstrated by the struggle to ratify the Maastricht treaty: turned down by a first referendum in June 1992, only to be approved a year later by a second.

Europe may well be held in suspense by the Danes once more - this time over the ratification of the Maastricht revisions under negotiation at the EU's inter-governmental conference.

No one knows for certain the final shape of Maastricht 2, but the political reality in Denmark is that it will almost certainly be submitted for approval by referendum. This is not a constitutional necessity, but rather it has become firm practice to submit EU treaties to a plebiscite.

To complicate the process, 11 Danes, with nothing in common except their opposition to Denmark's EU membership, are pursuing a case through the courts in which they argue that the prime minister acted unconstitutionally when he signed the Maastricht treaty.

Almost no one believes the courts will uphold the complainants' case. But it will not be settled until it



Danish prime minister, Poul Nyrup Rasmussen: 'No opt-outs'

has been considered by the Supreme Court, which has no tradition of over-turning legislation approved by the Folketing - and in the case of EU membership and the Maastricht treaty, by popular referendums.

But the court proceedings may drag out, probably for two years, possibly for twice

as long. And the Folketing is not expected to approve Maastricht 2 until the Supreme Court has spoken. As the revised treaty cannot be implemented until all 15 member countries have ratified it, the EU may have to be patient.

The approval of the Maastricht treaty in 1993 was given only after the government had obtained four opt-outs from the treaty. These concerned union citizenship, defence aspects of the common foreign and security policy, participation in the EMU common currency, and the treaty's legal co-operation chapter. The opt-outs cannot be reversed without new referendums.

Poul Nyrup Rasmussen, the prime minister, has made it clear to the Folketing that the government will not permit the opt-outs to be affected by the IGC negotiations.

This means that when Maastricht 2 is subjected to approval by the voters, there will not be a fight over the opt-outs, which, the government hopes, will make it easier to obtain the electorate's approval.

If the government and the Folketing ever decide that maintaining the opt-outs is no longer in Denmark's interest, they will probably be submitted to separate referendums. But this would only happen if public opinion had changed so much that the government could expect to win the vote.

The opt-outs, said a senior diplomat, mean that the Danish government can regard the IGC negotiations with a relative degree of equanimity, as the outcome is unlikely to touch the Danes on any of their most sensitive spots.

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